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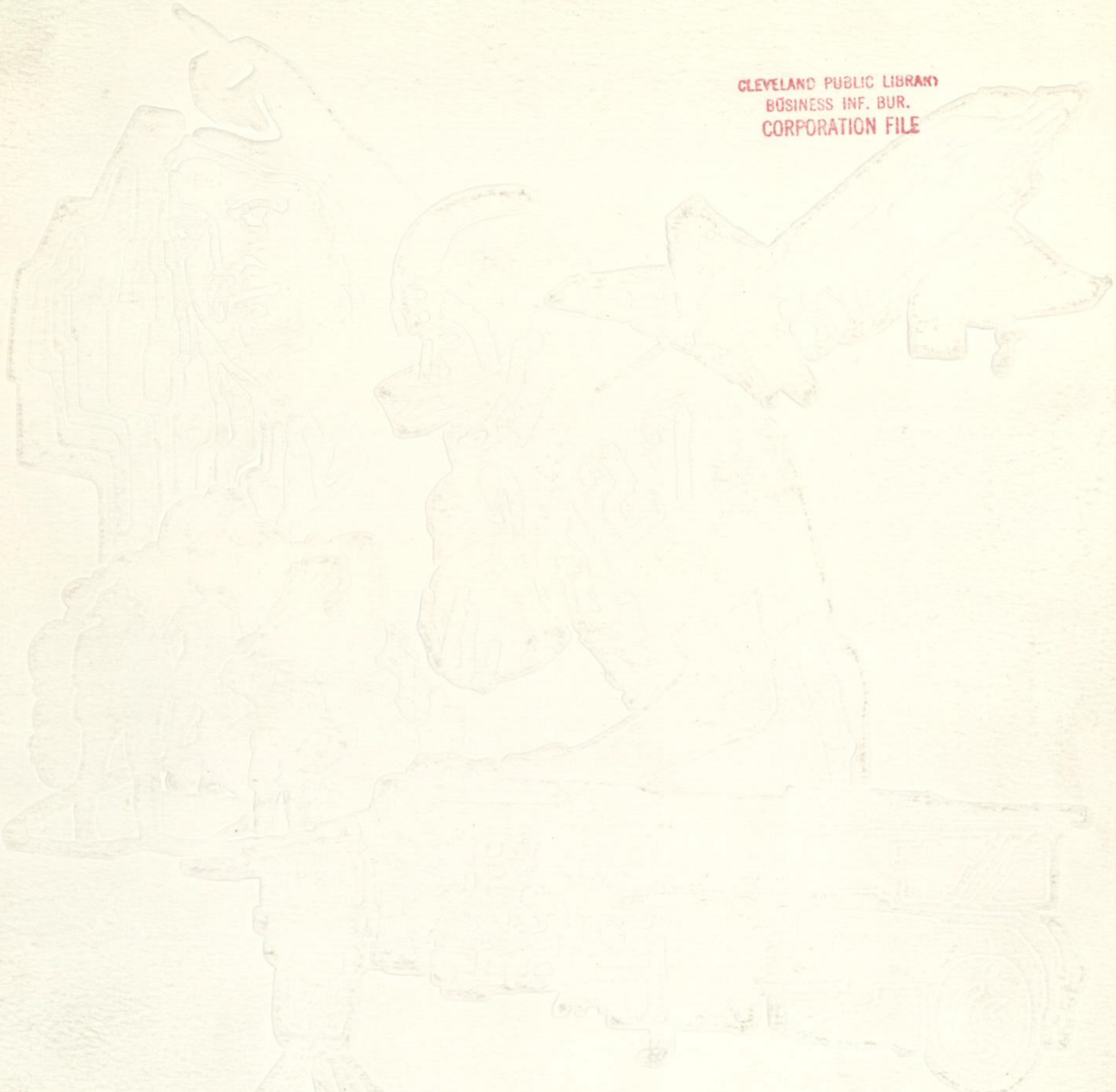

"Automatic" Sprinkler Corporation of America
Annual Report 1968

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"Automatic" Sprinkler Corporation of America is...

A growth company

"Automatic" is one of the nation's fastest-growing major corporations. Under present management, it has developed from a single-line company into a dynamic, highly diversified and well-balanced organization. With sales at a current level of $325 million, we rank high on the list of the 500 largest publicly owned U. S. corporations.

A multi-industry organization

Through its divisions and subsidiaries, "Automatic" manufactures and markets more than 14,000 products in six selected growth industries: fire protection, safety, and security systems and services; fluid controls and hydraulic equipment; profit-improvement equipment; electrical and electronic instrumentation; consumer-recreation products; and defense materiel.

A corporation of entrepreneurs

"Automatic's" management philosophy is based on the concept of entrepreneurship. Our division presidents have the decision-making authority to run their companies. In all aspects of its operations the corporation encourages individuality, flexibility and creativity.

A vital economic force

As a major corporation, "Automatic" is able to make available to its divisions the management expertise, financial resources, and technological capability essential to growth and expansion in today's highly competitive marketplace.

A good place to work

To the more than 16,000 men and women who work for "Automatic," the corporation is a source of satisfying and rewarding employment . . . a progressive company that provides opportunities in a wide range of disciplines and occupations. "Automatic's" policy of growing its own replacements creates unusually excellent opportunities for advancement, personal development, and participation in the growth of the corporation.

A publicly owned corporation

"Automatic" has more than 18,000 shareholders. Our ticker symbol is ATO. Our securities are traded on the New York, Midwest and Pacific Coast stock exchanges. A recent survey of five-year profitability averages of U. S. industry ranked "Automatic" first through 1967 in return on stockholder equity . . . the most efficient use of stockholder property.

A company with a future

"Automatic" is committed to growth. Our objective is to build a great American corporation as rapidly as possible on a sound and orderly basis through internal and external expansion . . . and we are ahead of our publicly stated schedule for achieving this goal.

Dear Shareholder:
Five years ago "Automatic" was a small, privately held company with roughly $22 million in sales and $300,000 in profits. Purchased assets were shown as $7.2 million when a venturesome group of people with a conviction that a great corporation could be built paid in $1.3 million equity to assume full control.

From that relative position of obscurity, we have risen to a position of some prominence. For the first time in 1967 "Automatic" was included in Fortune's list of the 500 largest U.S. corporations, ranking number 321 based on sales of $242 million and eighth in rate of sales growth.

More recently a Forbes survey of the 500 largest publicly held corporations ranked us first through 1967 in return on stockholder equity, sixth in sales growth, 13th in combined return on debt and equity, and 134th in annual increase in per share earnings.

In many ways by 1968, we had laid the foundation for a great U.S. growth company. In 1968, however, our earnings took a terrific tumble—we took a real shellacking—and the prophets of doom forecast dire results for our future. Certainly, we are not proud of our 1968 earnings, but our earnings drop was largely attributable to situations which had their seeds in contracts and situations which existed before we bought the companies involved. But we bought those companies in accordance with a program of growth dedicated to certain growth industries, sound companies and good managements. Therefore, we regard this earnings setback as temporary.

Despite poor earnings, someone who owned a portion of "Automatic" at the end of 1967 and held it through 1968 would find that in that single year:

(1) Our net worth jumped from roughly $46.8 million to $75 million — a 60.2 per cent increase. On a pooled basis it increased from $70 to $75 million — up 7.1 per cent.

(2) Our net working capital rose from about $63 million to $89.1 million — a 41 per cent increase. On a pooled basis it increased from $83.2 to $89.1 million — up 7.1 per cent.

(3) Our total assets went from approximately $158.1 to $211 million — a 33.5 per cent increase. On a pooled basis they increased from $206.6 to $211 million — up 2.1 per cent.

(4) Our current ratio rose from 2.3 to 1 to 3.0 to 1 — a 30.4 per cent improvement. On a pooled basis it also improved from 2.3 to 3.0 — up 30.4 per cent.

(5) Our depreciation cash flow grew from $3.69 to $4.82 million — a 30.6 per cent increase. On a pooled basis it increased from $4.57 to $4.82 million — up 5.5 per cent.

(6) Our sales climbed from $242 to $325 million, a 34.3 per cent increase. On a pooled basis, sales increased from $302 to $325 million — up 7.6 per cent.

We're a strong and growing company, serving growth industries — we're proud of our management team, we're proud of our quality products — we're proud of our accomplishments, and we're thankful we live in a country where a dream can turn into reality in five short years under a system of free enterprise that still permits the entrepreneurs a chance to "do their thing," increased governmental pressures notwithstanding.

While our balance sheet and sales got materially better and our earnings materially worse we kept doing what we'd done since January, 1964 — we worked long, long, hours, seven days a week, strengthening the management team, teaching modern management techniques, modernizing plant and equipment, introducing new products, penetrating new markets, acquiring new companies, developing new technological capabilities, installing cost and control systems where needed, and stressing modern cost-cutting techniques on a continual basis.

What are some of our real milestone accomplishments of last year? I think they were these:

(1) We hired Jim Goss in September as our president, chief operating officer and a director after a year-long search. You'll feel his full impact in 1969 and 1970.

(2) We hired Dick Patterson in February as treasurer, split the financial responsibilities between Dick and Bill Block, our controller, and elevated them both to vice presidential status. They each built top grade supporting teams and this area is now strong and operating very smoothly.

(3) We built a complete management level of five group vice presidents, every one promoted from division president; four had been owner-managers of companies which "Automatic" had previously acquired.

Where required group controllers were promoted from the divisions to serve as right-hand men to the group vice presidents.

Despite all this strengthening, we still follow our precepts that corporate should be a small group of highly trained experts, and this $325 million company is operated with 30 corporate executives.

(4) We opened the first of our four planned regional electronic data processing centers.

(5) We entered into a $90 million credit line with 10 of the nation's leading banks.

(6) We acquired Geo. J. Meyer Manufacturing Company, the world's largest producer of automated equipment for the beverage industry and a major factor in the field of materials handling through its Logan and Speaker Sortation Systems divisions. It was our largest acquisition to date.

(7) We bought Omni-Lab Inc., a developer and manufacturer of patented electronic audio-visual teaching equipment and merged it into our Scott Engineering Sciences division, which makes scientific learning systems, thus giving us a sound entre into the revolution in educational teaching.

(8) In the security field, we broadened our capability by purchasing a central station alarm company. Together with Advance Industrial Security and Automatic Protection Systems, the corporation can now offer a complete package of security for virtually any type of facility.

(9) We took a major position in U.S. Pipe and Foundry and currently own about 23 per cent of their outstanding shares.

(10) We hold about a 10 per cent interest in Certron, a designer, manufacturer, and processor of audio-magnetic tapes used in computers, entertainment, education and communications. Certron recently had a successful public offering. Our holdings were acquired as part of the Interstate Engineering merger in late 1967.

(11) We offered our divisions a cost-reduction program whereby if they would hire consultants to help them, corporate would pay the bill if the consultants couldn't identify at least 10 per cent savings in their respective operating costs. Fifteen divisions took the challenge and all paid their own bills. There are a lot more savings still to be obtained in future years, as is true in any company.

(12) Our auditor's report indicates that at present the "overhang" of options, warrants and convertible securities, would not reduce income per common share if exercised.

(13) Commensurate with a sound business approach we are funding our pension obligations as rapidly as feasible.

In summary, this past year has been a tough one, but as Mr. Truman once said, "If you can't stand the heat, get out of the kitchen." We don't like the heat but we think we've got a pretty nice kitchen.

While much remains to be done, we enter the new fiscal year confident of our underlying corporate strength and vitality. We've built a strong management team, have a good sound sales base, a sound financial condition, and we feel, an excellent future. Your management group has a pretty healthy common stock investment in "Automatic," so we're very interested in its future. But most of all we like to win. With your help and support, we expect to achieve our growth and profit objectives on schedule.

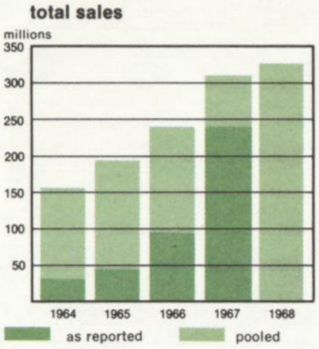
Respectfully submitted.

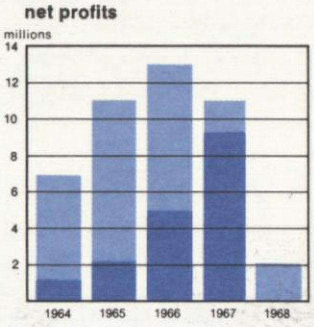
March 25, 1969

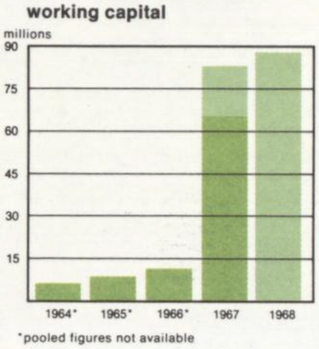
Harry E Figgie Jr

Five-Year Summary	1968	1967	1966	1965	1964
Net Sales, as Reported	$325,228,000	$242,327,000	$ 90,655,000	$ 45,876,000	$ 25,250,000
Net Sales, Pooled	325,228,000	302,132,000	243,007,000	190,007,000	151,059,000
Net Income, as Reported	2,121,000	9,193,000	4,425,000	2,150,000	1,184,000
Net Income, Pooled	2,121,000	11,049,000	12,648,000	10,894,000	7,304,000
*Net Income Per Common Share, as Reported	.10	1.43	1.15	.70	.40
*Net Income Per Common Share, Pooled	.10	1.45	1.70	1.50	.92
Common Dividends	732,000	488,000	360,000	122,000	5,000
Dividends, Per Common Share . .	.11	.11	.11	.04	.0024

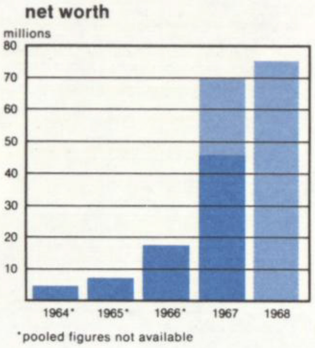
*After preferred dividends and splits


total sales


net profits


working capital

*pooled figures not available


net worth

*pooled figures not available

Executive Staff — Bottom row from left to right — Leonard Barbee, vice president-manufacturing; Harry E. Figgie, Jr., chairman and chief executive; James H. Goss, president; middle row—Luther Harthun, general counsel; William Block, vice president-controller; Richard Patterson, vice president-treasurer; G. Dameron Davis, vice president-industrial relations; top row—John Donnelly, director of corporate communications; James P. Donahue, director of corporate procurement; Joseph V. Guida, director of information services.

MANAGEMENT PHILOSOPHY

The hallmark of a successful company is the ability of its management to respond rapidly to changing conditions and act quickly to exploit opportunities.

"Automatic" Sprinkler's management philosophy is based on the theory that the decision-making process should be kept as close as possible to the operating level.

Organizationally, each "Automatic" division stands on its own. Division presidents are given wide responsibility and authority for the management of their companies. In return for this large degree of autonomy, each division head is accountable for his return on investment, operating profit margin, and earnings growth. Compensation is tied directly to division operating results rather than to those of the corporation as a whole.

The function of the corporate staff is to provide consulting service in the areas of manufacturing, finance, law and industrial and corporate communications.

Because each division operates as an autonomous profit center under the direction of an experienced manager, "Automatic" is able to function effectively with a small headquarters staff of highly mobile specialists.

To keep pace with the rapid growth of "Automatic," the corporate management team was expanded last year by the addition of several key new executives. Newly created staff positions include group controllers, a budget and forecasting manager, manager of information services, general internal auditor, corporate tax manager, assistant general counsel, and real estate manager.

By all conventional standards, however, the 30-man "Automatic" management team remains streamlined in relation to the size of the company.

Heading the list of new executive appointments announced during 1968 was the election of James H. Goss, 61, as president and a director. Under the new organizational structure, group executives and division presidents report directly to the new chief operating officer.

A former vice president of General Electric, Mr. Goss has few peers as an operating executive. His background includes experience in general management, consumer and industrial marketing, engineering, and manufacturing, both nationally and internationally.

During his distinguished 37-year career at G.E. he compiled an outstanding operating record heading that company's international, consumer and appliance groups, and as president and chief executive of Canadian General Electric Co., Ltd.

Corporate department heads continue to report to Harry E. Figgie, Jr., who as chairman and chief executive now devotes full time to overall administration of corporate affairs, and financial acquisition work and corporate planning.

Before taking the helm at "Automatic," Mr. Figgie, 45, was for nine years a partner with the management consulting firm of Booz, Allen & Hamilton, where he established and headed an affiliate specializing in corporate reorganization, profit improvement, and acquisition work. He later gained additional operating experience as a group vice president at A. O. Smith.

Leonard J. Barbee, vice president-manufacturing, 45, joined the corporation in 1966 after establishing an outstanding record of productivity and profitability as manufacturing manager at A. O. Smith Corporation.

William Block, vice president-controller, 38, joined "Automatic" in 1967 as corporate controller. He was elected to his present position in 1968. His previous operating experience was with Gar Wood Industries and with the Dura Corporation.

Richard Patterson, vice president-treasurer, 49, became treasurer of the corporation in 1968 and shortly thereafter was elected a vice president. He was formerly treasurer of the Glidden Co.

G. Dameron Davis, vice president-industrial relations, 52, joined "Automatic" in 1966 after serving as a labor contract negotiator and as industrial relations executive for Ford Motor Company, Midland Steel Corporation, U.S. Industries, and Pan Am. He was elected a vice president in 1969.

Luther A. Harthun, general counsel, 33, joined "Automatic" in 1966, after serving with the Chicago law firm of Hopkins, Sutter, Owen, Mulroy, Wentz & Davis.

James P. Donahue, director of corporate procurement, 36, came to "Automatic" in 1967 after serving as manager of purchasing, research and planning for Burroughs Corp.

John P. Donnelly, director of corporate communications, 36, joined "Automatic" in 1967. He was formerly with Texaco Inc., where he was responsible for a wide range of public relations activities.

Joseph V. Guida, 40, director of management information systems, was formerly director of data systems for Sperry Rand. He is the co-author of "PERT—A Management Control System" and has published a number of articles on computer application.

GROUP VICE PRESIDENTS

Each of "Automatic's" five group vice presidents is a veteran, results-oriented operating executive with firsthand knowledge of the company's management policies and the businesses of the divisions reporting to him.

All are former division heads with outstanding records of performance; four of the five were owner-managers of firms that are now part of "Automatic." In every instance but one, the men selected to succeed them as division presidents were developed internally from within the same organization.

Thomas W. Mason coordinates activities of divisions serving the fluid controls and hydraulic equipment markets. His 35-year career in this business includes experience ranging from pipe fitter and press operator to office manager and sales director.

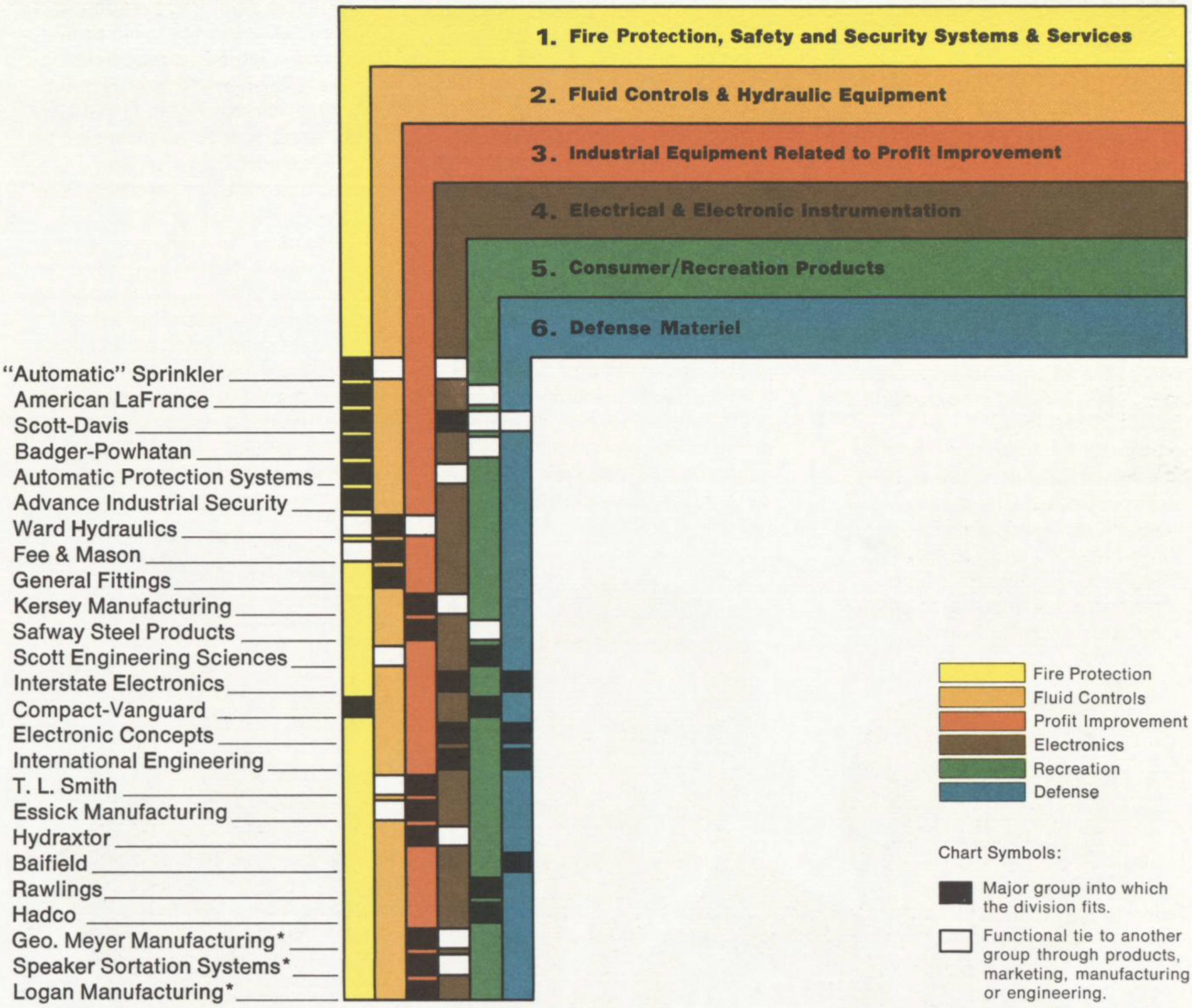
J. J. Tanis oversees progress of the Sprinkler, Safway, and Rawlings divisions. A civil engineer with extensive sales and supervisory experience in the construction industry, he joined the Sprinkler division in 1966 as assistant to the president and general sales manager.

E. K. "Ned" Paine is responsible for the growth and development of divisions serving the fire protection, safety and security systems markets. He has posted an outstanding record as both entrepreneur and a corporate executive. Before he purchased the assets of Badger in 1963, he was national sales manager for the General Fire Extinguisher Company.

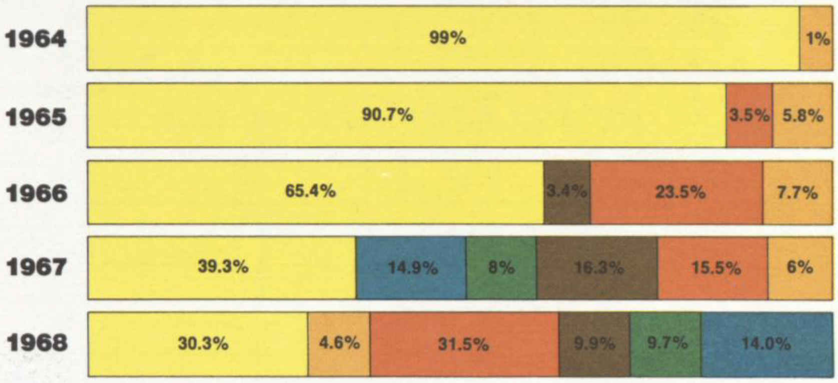
Allen A. Koplin has responsibility for certain divisions in the profit-improvement equipment field. His experience in this area dates to 1951, when he joined Hydraxtor as a salesman. After advancing to vice president of sales, he purchased the firm, and served as its president after it joined "Automatic" in 1966.

George L. N. Meyer, Jr., former president of Meyer Manufacturing Company, has spent his entire 22-year career in the packaging machinery and material-handling business. As group vice president, he is assigned responsibility for the Meyer, Logan, and Speaker Sortation Systems divisions and their international operations.

Group Vice Presidents — Bottom row from left to right — Thomas W. Mason, fluid controls and hydraulic equipment; John J. Tanis, special projects; top row — E. K. Paine, fire protection, safety and security; Allen A. Koplin, industrial equipment related to profit improvement; and George L. N. Meyer, Jr., packaging machinery and materials handling.


1. Fire Protection, Safety and Security Systems & Services
2. Fluid Controls & Hydraulic Equipment
3. Industrial Equipment Related to Profit Improvement
4. Electrical & Electronic Instrumentation
5. Consumer/Recreation Products
6. Defense Materiel
"Automatic" Sprinkler
American LaFrance
Scott-Davis
Badger-Powhatan
Automatic Protection Systems
Advance Industrial Security
Ward Hydraulics
Fee & Mason
General Fittings
Kersey Manufacturing
Safway Steel Products
Scott Engineering Sciences
Interstate Electronics
Compact-Vanguard
Electronic Concepts
International Engineering
T. L. Smith
Essick Manufacturing
Hydraxtor
Baifield
Rawlings
Hadco
Geo. Meyer Manufacturing*
Speaker Sortation Systems*
Logan Manufacturing*
Fire Protection
Fluid Controls
Profit Improvement
Electronics
Recreation
Defense
Chart Symbols:
Major group into which the division fits.
Functional tie to another group through products, marketing, manufacturing or engineering.

*Divisions acquired during 1968



Diagram, top, graphically depicts the principal areas of "Automatic's" operations and the inter-relationship of its divisions. The bar chart, above, shows the proportion of overall sales accounted for by each of the major groups of companies and highlights "Automatic's" growth from a single-industry company to a large, highly diversified corporation.

Fire Protection, Safety and Security Systems and Services

"Automatic" Sprinkler Corporation is the world's largest integrated manufacturer of fire protection equipment and is one of the fastest growing companies in the rapidly expanding field of security systems and services. The divisions in this group accounted for 30.3 per cent of the corporation's overall sales volume during the year ended December 31, 1968.

The clang of a fire alarm signals the outbreak of a fire in this country every 32 seconds. A serious crime occurs on the average of every nine seconds . . . a burglary every 20 seconds . . . a robbery every 150 seconds.

The rising incidence of these hazards—as well as riots, vandalism, and civil disorder—is making the business of protecting people and property one of the nation's fastest growing industries.

"Automatic" Sprinkler

As the corporation's original vehicle for growth, this division provides a classic example of the progress that can be achieved given sufficient time to work with a company to develop its potential.

In five years under present management, the Sprinkler division has doubled its sales and more than doubled its profits.

During 1968 the division continued its progress despite the disrupting effects associated with relocation of the division staff into a new office and research center in suburban Cleveland and putting a new manufacturing plant on stream in Swainsboro, Ga.

Strong support for sprinkler sales continues to come from the insurance industry, as underwriters stress risk reduction . . . accompanied by lower premiums . . . through sprinkler installation. Also, more and more cities are rewriting building codes to require greater use of sprinklers for fire protection.

The division is aggressively participating in an industrywide effort to direct the attention of architects and engineers to the fact that building codes recognize the effectiveness of sprinkler systems by allowing much greater design flexibility for sprinklered structures.

The basic tool in this ongoing campaign, a 22-page manual—"The Code Book"—points out that sprinklered buildings can be built higher, cover more floor space, utilize a wider range of finishing materials and require fewer exits than non-sprinklered buildings.

Another important accomplishment was the implementation of a divisionwide cost-reduction program to improve profit margins and the division's ability to negotiate competitive contract business.

Future prospects for this division are enhanced by pending federal, state and local regulations which could double the sprinkler market within the next five years by requiring fire detection and suppression systems in almost all buildings except single-family residences.

American LaFrance

Since becoming part of "Automatic" in 1966, this famous 135-year-old producer of firefighting equipment has been rejuvenated and restored to its former pre-eminent position in the industry.

Unit sales of apparatus, primarily custom-built firefighting vehicles, increased substantially over 1967 and the product line was strengthened by introduction of two new firefighting vehicles: a rear-mounted aerial ladder truck, and a diesel-powered pumper with a 2,000 gallon-per-minute pump.

During 1968 two new American LaFrance service centers were established and plans were made for additional facilities in other metropolitan areas.

These authorized service shops, staffed with skilled mechanics and equipped with modern electronic test and repair equipment provide prompt, professional service for all makes of fire equipment.

Combined sales of consumer and industrial fire extinguishers showed another marked increase in 1968, and the division's 2¾-pound personal-size extinguisher outsold all others in national sales.

Several new models, among them the new one-pound "Mascot" disposable home-and-auto extinguisher, are being developed to further expand participation in the fast-growing consumer segment of this business.

Badger-Powhatan

Consolidation of Badger, Powhatan, and Blaze Guard into a single operating unit gives this newly formed division the capability to become one of "Automatic's" major profit centers.

Under the reorganization, the former divisions retain their brand identities but are combined for administrative purposes under the direction of Willard Mahler, whose Badger division made great strides in attaining its growth objectives during 1968.

American LaFrance "Aero Chief" elevating platform moves firemen quickly into position to train 2,000 gallons of water per minute on blazing high-rise buildings. Fred A. W. Anger, a veteran automotive engineering and management executive, is president of this famous designer and manufacturer of quality fire-fighting apparatus and accessories.

One of "Automatic's" earliest acquisitions, Badger's annual sales volume has grown nearly 1300 per cent to more than $5 million in less than five years.

This important producer of wet and dry chemical and CO_2 fire extinguishers introduced a dozen new models during the year to give it one of the most complete and fully competitive extinguisher lines in the industry. A planned diversification for Badger into related product areas was also accomplished with introduction of a unique 2½-gallon duster unit for the pesticide industry.

Powhatan Brass, producer of brass fittings and hardware for fire protection equipment and industrial applications, experienced start-up problems and temporary production delays in getting its new highly automated foundry onstream early in 1968.

By yearend, however, Powhatan was operating at a new high level of productivity.

Scott-Davis

The combination of Scott Aviation and Davis Emergency Equipment to form a broad-line safety equipment division is expected to result in impressive improvements in administrative and operating efficiency and to provide broader and deeper penetration of both industrial and consumer markets.

The Davis product line includes first aid unit-pack kits and refills, safety equipment, fire blankets and instruments for signaling and detecting the presence of combustible, toxic or other gases and air pollutants in the atmosphere. When you read about the level of pollutant concentrations in your local newspaper, chances are the readings were taken with Davis instruments.

Scott, which is one of the leading suppliers of equipment to firefighters, industrial safety departments and law enforcement agencies, achieved record high sales and earnings in 1968.

While strong demand for specific products such as Scott firefighting equipment and gas masks is due in part to the rising incidence of civic disorders, the major impetus for the division's overall growth in this area can be attributed to aggressive marketing of equipment that meets the highest standards of design and quality.

In the aviation industry, Scott supplies oxygen system components for Boeing's "jumbo jet" program. The company is a major supplier of high-altitude oxygen-regulating devices for military and commercial aircraft and a leader in the field of light-aircraft accessories. When you fly in a commercial jetliner, you're protected by Scott equipment that is part of the oxygen system above your seat.

A new aviation product, electroluminescent lighting panels for aircraft interiors, received an outstanding reception, confirming earlier projections of the sizable market potential. By early 1969 Cessna and Piper Aircraft had installed these unique lighting units in certain models and several other manufacturers were considering their use.

Automatic Protection Systems

This division, formerly "Automatic" Vandalarm, adopted its new name in December to reflect its evolution from an alarm-system manufacturer to a protection systems company.

An important new operation within this division is Houston Electronic Protection, acquired last August. This firm operates a central station alarm system which is connected electronically to

W. P. Mahler, left, former president of Badger Fire Extinguisher, now heads combined operations of Badger, Powhatan and Blazeguard. Emergency oxygen equipment and protective breathing apparatus, right, are important products of Scott Aviation. Robert G. Dettmer is president of the combined Scott Aviation and Davis Products divisions.

detection units in subscriber banks, retail, commercial and industrial buildings, apartments and private residences. When on-site sensors detect unusual activity in a protected area, they automatically transmit signals to the central station, which immediately notifies authorities and the property owner.

From this base, "Automatic" can intelligently expand in a market where there appears to be a great need for updating detection equipment and techniques.

The division's line of sound-triggered burglar alarms is being expanded to include a full complement of alarm and detection systems, automatic telephone reporting devices, surveillance cameras and closed circuit television monitoring equipment.

A timely sales stimulus for these products was provided by passage of the Bank Protection Act of 1968, which requires installation of both alarms and cameras in all federally regulated financial institutions.

Advance Industrial Security

Soaring loss rates—estimated at $20 billion a year—from theft, fire, riot, and other causes have led to a steady increase in business for suppliers of private guards and security equipment.

Added momentum for growth is being provided by accelerated federal and state anti-crime programs and a growing recognition that the role of private security organizations will have to be expanded in the fight against crime.

An important factor in this company's rapid growth is its unique "total protection of assets" concept, which encompasses a full range of fire, safety and security services.

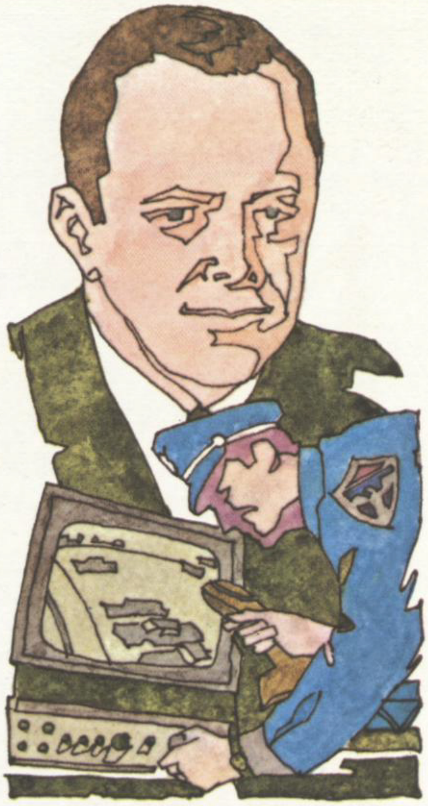
By utilizing the most efficient combination of manpower and modern electronic equipment, it is able to provide maximum protection at minimum cost.

The division also does investigative work. It's staff of highly trained specialists has demonstrated outstanding proficiency in handling diverse assignments ranging from routine pre-employment screening to complicated cases of industrial espionage, burglary, embezzlement, theft, and arson.

Advance now provides security systems for major companies in all types of industries and businesses as well as for leading colleges, banks, hospitals and government facilities. It is further expanding its services geographically to enlarge its market area and to strengthen its identity as a nationwide security service.

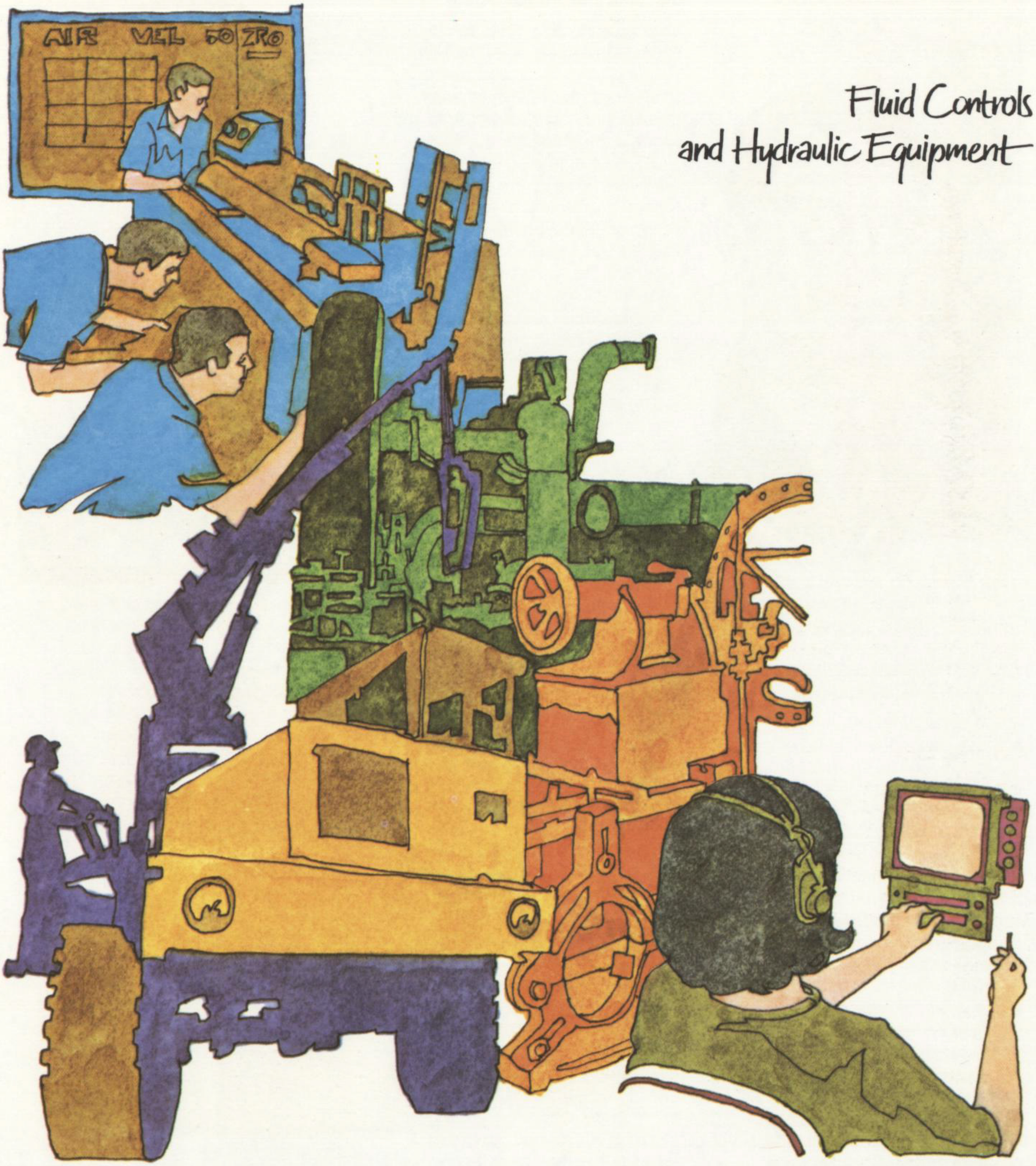
When you are at the airport, ballpark, an industrial site, or government facilities, and you see a smartly uniformed guard with a stylized eagle shoulder patch, you'll know you're being protected by Advance Industrial Security.

Supplementing the impressive list of products and services provided by the fire-safety-security system group are a substantial number of complementary products produced by other "Automatic" divisions. These include Interstate Engineering's UL-approved Vanguard fire alarm and smoke detector system, which can be installed in the home in just minutes, Logan's fire-retardant mattress covers for hospitals and nursing homes, fire-proof mattresses for hotels, motels and dormitories, and protective wire partitions and security gates for industrial and commercial uses.



Under President Edward Japhe, right, a former Army Intelligence officer, Advance Industrial Security has become the nation's fifth largest security company, E. A. Stroupe, left, formerly marketing director for the Sprinkler division, is president of Automatic Protection Systems. Banks are important clients for this division's security equipment and services.

Fluid Controls and Hydraulic Equipment



Divisions in this group produce items ranging from small pipe hanger clamps and hydronic heating valves to giant hydraulic cylinders for missile-servicing platforms and complex fluid power educational systems. Two recent acquisitions have broadened the activities of this group in the areas of air conditioning controls and audio-visual teaching laboratories.

"Automatic" companies in the fluid controls and hydraulic equipment group design and manufacture systems and devices for measuring, controlling, transmitting, and studying fluid power. Customers range from plumbing wholesalers to educators . . . products from vocational training kits to hydronic valves.

Because of the comprehensive nature of the science of fluid mechanics, basic information gained in this field has application in such widely varied fields as aeronautics, ballistics, oceanography, and civil, marine, and mechanical engineering.

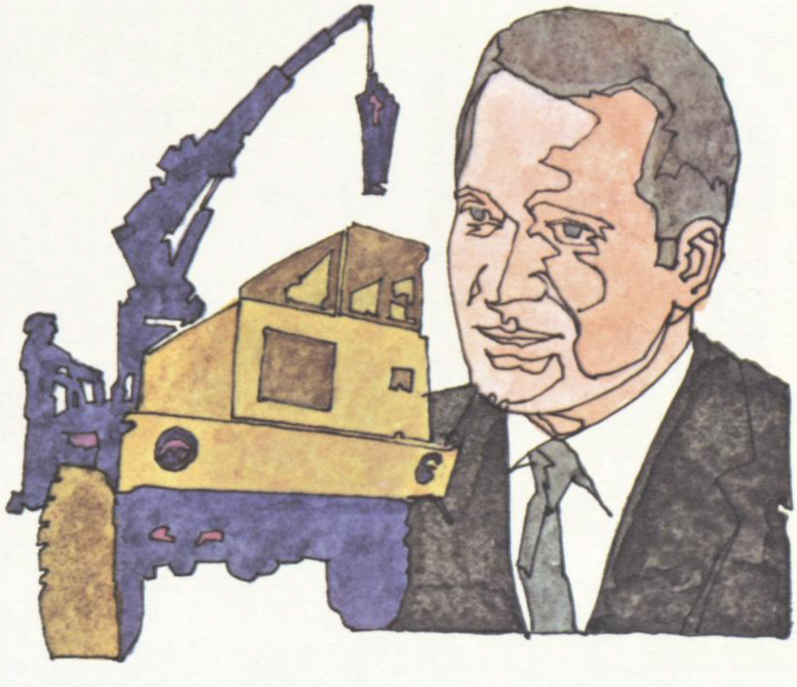
The continued growth and future potential of this segment of "Automatic's" operations is graphically highlighted by the sharp gains in shipments of fluid power products, which have risen to new record highs in each of the past six years. Reflecting this rapid industry growth, group sales were up appreciably. Profit fell below expectations, however, due to a prolonged strike at one division and the closing of a marginal division.

Ward Hydraulics

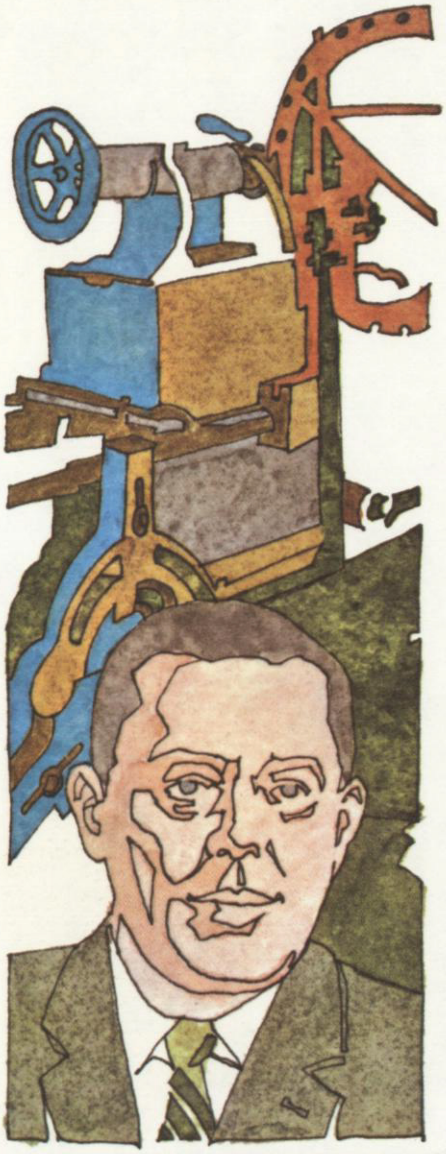
New ideas, new products, and new customers all played important roles in the fast-moving scene at Ward Hydraulics in 1968. Despite sluggishness in the construction equipment industry and the effect of the crippling copper strike on the mining industry, division sales and profits showed a smart increase.

Heading the list of new products reaching the market for the first time in 1968 was a directional control valve, which is being sold as a companion product to hydraulic cylinders.

The Scott Midland subsidiary, a manufacturer of vehicle-mounted cranes, last year introduced the



Vehicle-mounted hydraulic equipment for the construction industry represents one important and growing segment of business for Ward Hydraulics. Headed by President John R. Link, this division has steadily increased its volume since becoming part of "Automatic" Sprinkler in 1967 and started the current year with a record high backlog of orders.



Jack-Jib, a fixed pedestal-mounted crane for hoisting materials atop buildings under construction; this year it plans to offer a new truck-mounted aerial platform designed for use by utility companies and electrical contractors.

The division enters 1969 with the largest backlog of orders in its history.

"Automatic" Process Piping

Operations of "Automatic" Process Piping—an installer and fabricator of industrial piping and processing systems—were discontinued during 1968. A marginally profitable operation acquired as part of the original "Automatic" Sprinkler purchase in 1963, the division functioned basically as a mechanical contracting service. The decision was therefore made to close shop rather than make the sizable capital investment required to establish "Automatic" Process Piping as an effective force in a high-risk market that does not fit our growth pattern.

Fee & Mason

Operations of this division were disrupted last year by an 11-week strike shortly after the division moved into its new plant.

Now installed in a modern new manufacturing facility, Fee & Mason expects to resume its growth in 1969 and achieve a better return on sales through higher productivity and lower operating costs. To increase its market penetration, the division recently purchased the inventory of Iteeco, a division of California Steel & Tube Co., a Los Angeles-based marketer of pre-formed channel and accessories.

General Fittings

General Fittings division greatly strengthened its competitive position during 1968 by expanding its markets, introducing new products, and reducing costs.

Major factors contributing to the division's strong 1968 performance were the demand for hydronic heating components in residential buildings and increases in sales of electric immersion-type heaters.

Late in 1968 General Fittings introduced the Zon-Val, a device for controlling the flow of water in individual temperature zones of hydronic heating systems. The new product has considerable market potential and is expected to prove a profitable addition to the company's line.

The expected upswing in residential construction activity should greatly enlarge demand for the division's line of domestic water heaters, pressurized expansion tanks, and air control packages.

The joining of General Fittings and the Fee & Mason divisions offers an excellent example of the practical benefits of consolidating the operations of two small complementary operations. While each division has retained its own marketing identity, major economies are being achieved through common management, distribution and other economies of scale. Greater marketing impact has been achieved, too. The merger has made it possible for General Fittings, which has historically obtained the bulk of its business in the Northeast, to expand into the Midwest and West Coast markets served by Fee & Mason.

Broader markets, deeper penetration of traditional markets, and the introduction of supplementary product lines should contribute to the continued growth of the entire fluid controls and hydraulic equipment group.

Scott Engineering Sciences

Scott Engineering Sciences division continued to make progress in 1968 through introduction of new products, new licensing

Consolidation of the General Fittings and Fee & Mason divisions under President William J. Sliney, above, expands market coverage for both product lines while substantially reducing operating costs. Formerly executive vice president of Fee & Mason, Sliney was promoted to division president when Thomas W. Mason was elected group vice president.

agreements, and an acquisition that greatly enlarged the scope of its activities in the application of electronic technology to educational requirements.

By yearend, Scott equipment was installed in virtually every major engineering school in the country, including the U. S. Naval Academy, and through Omni-Lab the division gained its largest contract to date, a $300,000 order from a major Midwestern university for a highly sophisticated random-access teaching system.

Acquired late in the year, Omni-Lab markets electronic teaching laboratories that enable students to dial a selection of programmed materials.

Modular construction of the computer-compatible laboratories permits inexpensive installation of the basic system and enables audio-visual programs to be added gradually as needed in any combination. Unlike many other teaching laboratory systems, which are limited to language studies, the versatile Omni-Lab system provides immediate access to unlimited banks of fundamental information in virtually every discipline. It is now being used at every level of education from grade school to university.

The significance of the combination of the two companies is that it offers a real capability for automating learning. For the first time, it may now be possible to develop educational hardware that can link empirical and theoretical knowledge.

During the year, Scott signed a license agreement with an English firm for exclusive rights to market its hydraulic products in this country. Under this reciprocal arrangement, the English company will distribute Scott products in Europe, a development expected to further stimulate growing overseas sales of the division's equipment.

Scott also announced an agreement to serve as national distributor for Pitney-Bowes fluidic systems and components for the educational field. This agreement enables Scott to offer a complete facility for experimental investigation of fluidics.

New product development further expanded the Scott line of bench-top learning apparatus. The division now markets a total of 72 educational systems.

Its new dynamic-situation simulator has a host of applications as an instrument for on-the-job training in the professional, vocational, and technical fields. By means of a unique overhead projection system, pupils are confronted with and forced to react swiftly to simulated situations typical of emergency conditions they may someday actually encounter. The broad spectrum of potential uses for this new equipment ranges from riot-control training to simulated heart-transplant surgery.

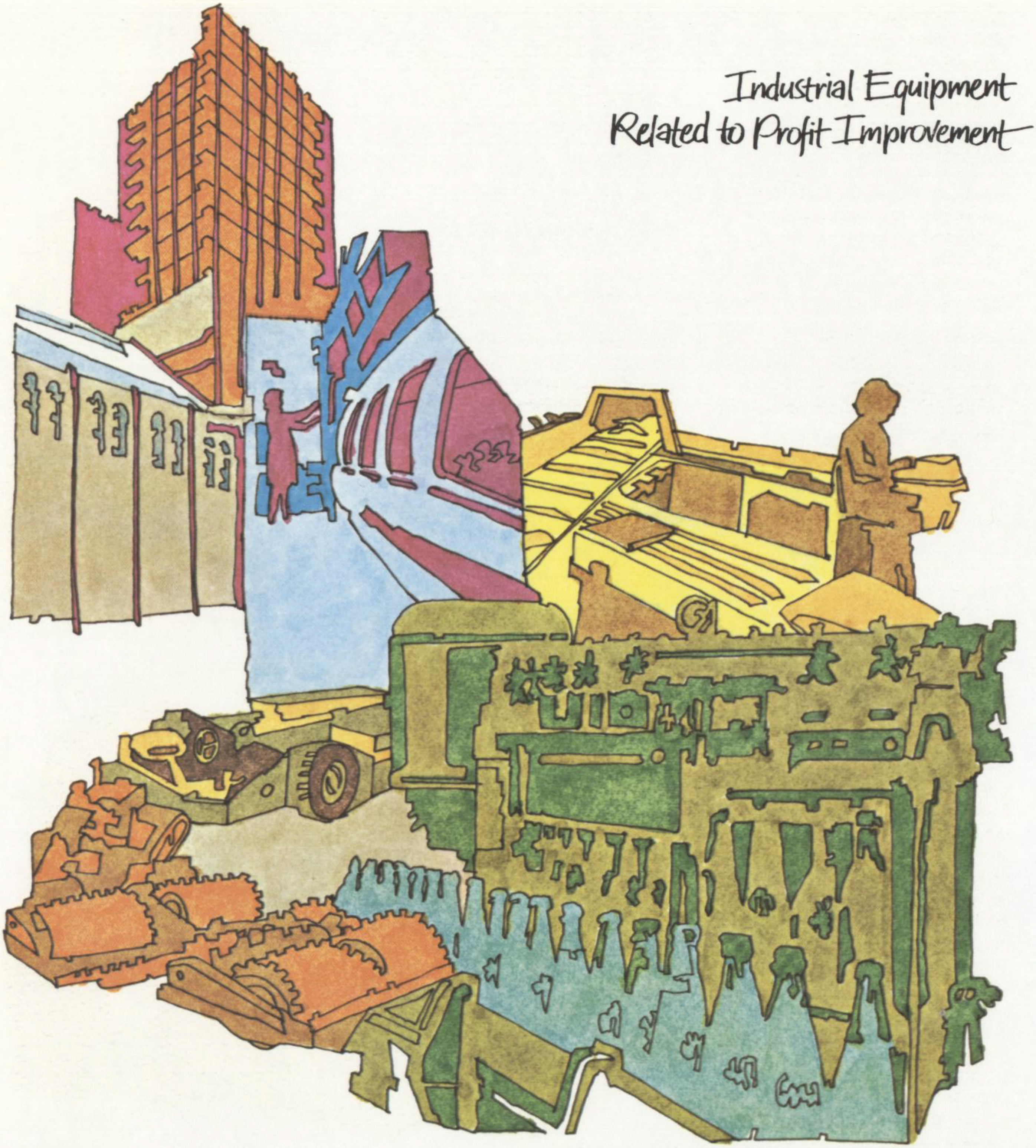
One such unit is presently being used by the Toronto Fire College in training programs designed to simulate rescue operations and fire fighting procedures.

To develop its full market potential, Scott is putting increased emphasis on the preparation of course outlines, curriculum guides, workbooks, manuals and texts. The company is also sponsoring and participating in a series of seminars to keep teachers and school administrators abreast of the latest developments in the educational field.

While primary emphasis will continue to be in the school market, where a critical nationwide teacher shortage assures accelerated demand for programmed instruction facilities, the company foresees a growing industrial market for its products.

Scott Engineering Sciences, under the direction of President Peter C. Zanetti, supplies educational systems for teaching fluid power and other technical subjects to virtually every major engineering school in the United States. Zanetti was named head of Scott Engineering in 1964 and was retained in that capacity when the firm joined "Automatic" in 1967.

Industrial Equipment Related to Profit Improvement



With wage increases racing ahead of productivity gains, mechanization offers management's best defense against profit erosion. "Automatic" provides labor-reduction machinery for a wide range of manufacturing, processing, and service industries. Industrial equipment related to profit improvement accounted for 31.5 per cent of 1968 sales.

Economic forecasts indicate that U. S. business will spend more than $69 billion on new plant and equipment and modernization of existing facilities in 1969.

Much of the emphasis in this spending continues to be directed at offsetting the effects of costly wage hikes, increasing material costs, and higher corporate taxes. In addition to these profit-squeezing inflationary pressures, demand for profit-improvement equipment is being spurred by a severe shortage of skilled workers in many industries.

Kersey Manufacturing

Coal mining is a classic example of an industry dependent upon achieving an ever-increasing level of mechanization.

The strong demand for coal . . . with tonnage up nearly 40 per cent in the last five years . . . and critical shortage of miners for present and future industry requirements have stimulated the need for labor-saving equipment such as the Kersey division's line of self-unloading chain conveyor coal cars and battery-powered tractors and personnel carriers.

Last year, however, Kersey's sales volume declined due to industrywide strikes which virtually shut down coal production in this country.

During 1968 Kersey introduced two new mining vehicles designed to meet the changing and highly specialized needs of the coal industry. These vehicles, a self-unloading scoop tractor equipped with an air compressor, and a rubber/rail personnel carrier quickly proved their capability in on-the-job service.

Other new products are scheduled for introduction during the current year, including an automatic belt feeder for moving coal from coal-haulage equipment to mine conveyor belts. The division has also developed a small battery-powered baggage-handling tractor which will be put into service this year at a major airline terminal. If tests of the prototype prove it commercially feasible, this will open an entirely new field for the sale of Kersey products.

In addition to marketing its own products, Kersey recently became a distributor to the coal industry for Badger fire extinguishers and Scott Aviation breathing and safety apparatus.

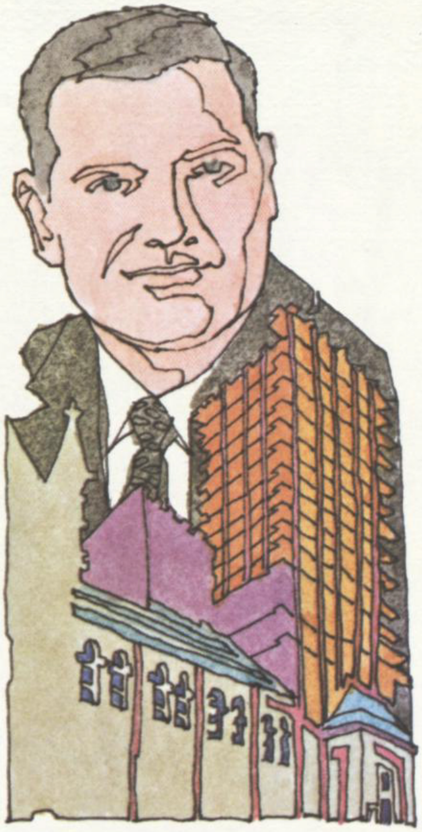
In co-operation with industrywide efforts, the division is intensifying its research programs to develop new methods and machinery specially designed to solve problems of mine safety. Kersey's present line of battery-powered tractors and other specialized vehicles and equipment has already been approved and classified as fully permissible by the U. S. Bureau of Mines.

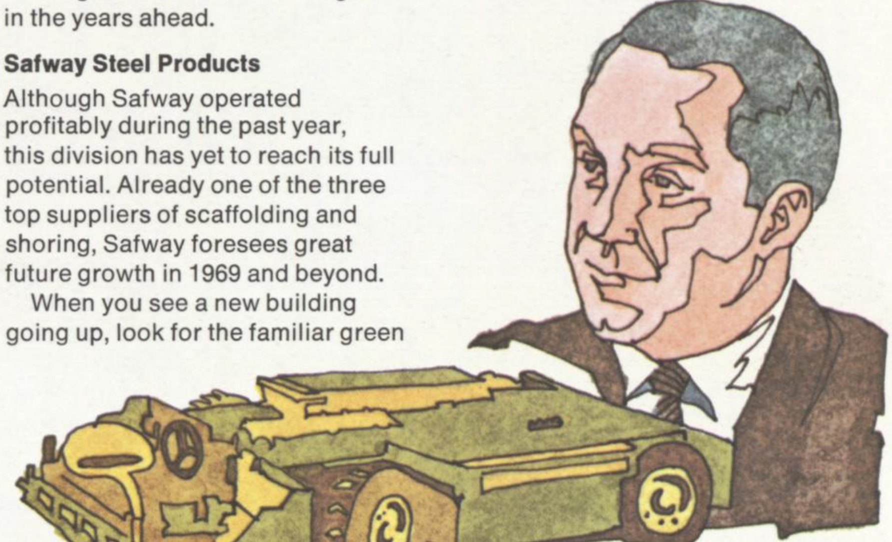
With a backlog of orders currently running at near-record levels and continuing growth of the coal industry projected for at least another decade, Kersey division is in an excellent position to achieve new highs in sales and earnings in the years ahead.

Safway Steel Products

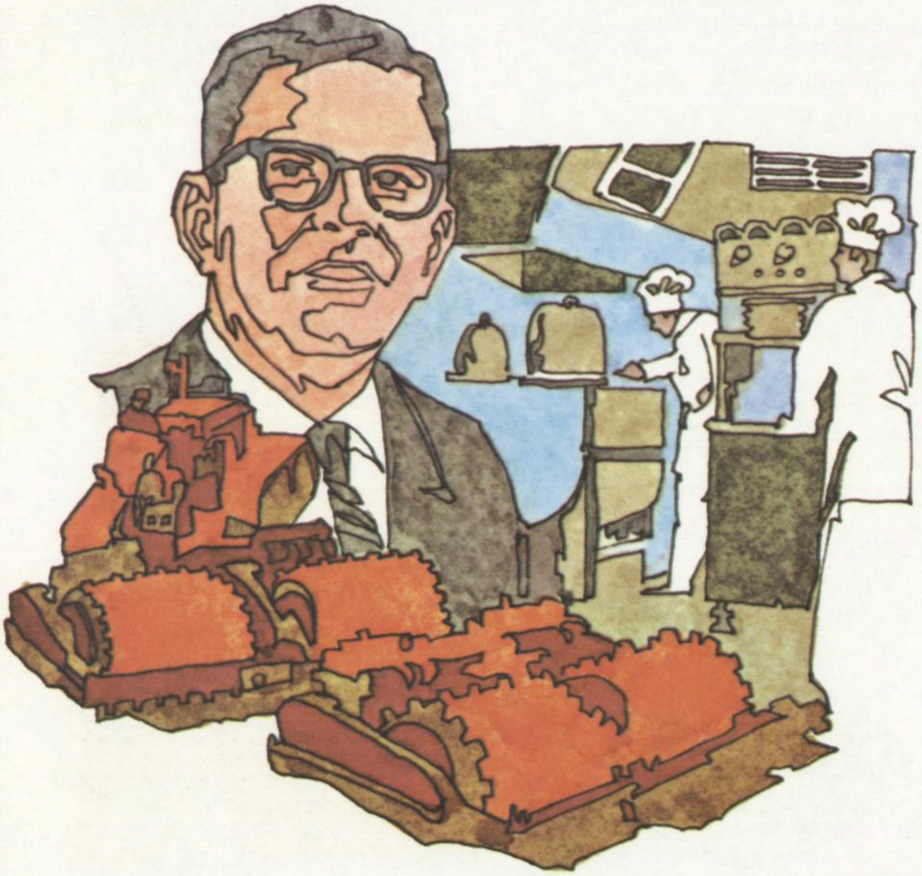
Although Safway operated profitably during the past year, this division has yet to reach its full potential. Already one of the three top suppliers of scaffolding and shoring, Safway foresees great future growth in 1969 and beyond.

When you see a new building going up, look for the familiar green





Kersey Manufacturing, producer of labor-saving equipment for the coal mining industry, is headed by President Lon D. Ellison, above. W. P. Stetzelberger, top, recently named Safway division president, previously was a regional vice president for a major corporation serving the building trades. Safway scaffolding is widely used by building contractors.



scaffolding with the Safway name on it.

In 1968, sales and rentals of scaffolding again accounted for the largest segment of business but the newer line of heavy-duty concrete shoring is fast becoming a major factor in the operations of this division.

Major shoring jobs during the last year included several nuclear power plant pedestals, the new Nassif Building in Washington, D. C., and the new stadium in Pittsburgh.

The outlook for shoring system sales and rentals is particularly bright. Each year architects are designing more reinforced-concrete structures as new technologies offer greater flexibility in the use of this basically lower-cost material.

Hydraxtor

A leading manufacturer of automated laundry equipment, Hydraxtor strengthened its competitive position in this field early in 1968 with the acquisition of Wether-Bee Company.

Wether-Bee's commercial laundry products include lint filters, which reduce fire hazards by trapping large quantities of flammable lint, and heat reclaimer systems, which effectively reduce laundry operating expenses by cutting the costs of heating incoming water and/or incoming cold air.

Working closely with commercial launderers, Hydraxtor introduced several new concepts during 1968 and made significant improvements in existing equipment technology to keep apace of the rapidly changing needs of this industry.

The company's air conveyor systems, which virtually eliminate the need for manual handling of soiled and clean textile products in commercial linen supply, industrial, and institutional laundries, provide

Richard N. Brookins, above, president of Essick Manufacturing, has held key positions in all management areas during his 30 years with this firm. Hydraxtor, a leading manufacturer of laundry equipment, is headed by A. H. Melin, top. Formerly director of engineering, Melin was named division president when A. A. Koplin advanced to group vice president.

a timely response to the soaring wages and critical labor shortage within the industry.

Other new products include a heated humidity chamber specially designed for processing synthetic-blend fabrics; a new and improved folding machine for low-price markets now dominated by competition; and an improved washer which provides greater volume and operating efficiency than previous models.

These and other product developments enable the division to stress the total-laundry-systems approach.

One outstanding example of the efficiency and labor savings offered by this total-systems approach is the Hydraxtor installation at Booth Avenue Hospital Laundry in Toronto, Canada. Operated jointly by five Toronto-area hospitals, this highly mechanized facility is capable of processing over 60,000 pounds of laundry per day. Through application of advanced material-handling methodology, the participating hospitals expect to save upwards of $600,000 in laundering costs in the first year of the new facility's operation.

Special attention is now being devoted by Hydraxtor to the institutional field, such as hospitals and colleges, where the greatest growth potential for the immediate future is projected.

Essick Manufacturing

Sales from the division's line of labor-saving equipment for the road-building and construction industry exceeded expectations last year.

New products offered for the first time during the year included three new models of vibrating rollers for highway construction and two different models of combination plastering and plaster-mixing machines.

Domestic sales of Essick's other major product group—air coolers and make-up air heating and cooling systems—were up during 1968 but export sales declined.

Products posting the biggest sales gains during the year were portable residential air coolers and Tri-Temp make-up air units for laundries, restaurants, factories and other facilities where large volumes of exhausted air must be replaced by temperature-controlled fresh air.

The fast-growing gas-fired Tri-Temp line will be expanded during the coming year by the addition of a new model which delivers greater air volume at lower temperature rise, and, therefore, more air per dollar cost; another new model incorporating electric heat has been developed for sale to commercial customers housed in all-electric buildings.

More and more people are now installing humidifiers in their homes for greater comfort and to reduce heating costs. Ask your dealer about the economical Essick model.

The division also markets household evaporative air coolers for summer comfort.

T. L. Smith

Probably no division in the corporation made greater progress in overcoming problems during 1968 than T. L. Smith, manufacturer of automated machinery for commercial laundries, concrete mixers, and other specialized equipment for the construction industry.

An outstanding accomplishment in 1968 was a major reduction of the division's breakeven point; that is, the point at which total fixed and variable costs equal total income. This was achieved through administrative and operating economies resulting from consolidation of Smith's manufacturing operations in a single Milwaukee plant.

Additional efficiencies are expected to result from implementation of rigid new production controls and the introduction of value-analysis and improved inventory-control systems.

The division enters 1969 with a much improved backlog of orders than a year earlier and expects a strong increase in sales this year.

Meyer Manufacturing

Materials handling systems—one of the economy's most dynamic industries in terms of innovative concepts and growth potential—became "Automatic" Sprinkler's newest growth nucleus through acquisition of Geo. J. Meyer Co.

The Meyer division—world's largest producer of high-speed bottling machinery for the brewing and soft-drink industries—had one of its best years in terms of sales

Automated systems for handling, mixing and processing bulk materials represent an important segment of business for T. L. Smith. President Robert W. Smith, whose experience spans 29 years with this firm, expects a strong increase in sales during the current year due to stepped up activity in the construction industry markets served by this division.

and profits. It also accomplished a major reorganization of its marketing operations and introduced important technological equipment innovations to strengthen the product line for profitable future growth.

To provide customers with a single source for all their packaging machinery needs, the sales organizations of three plants were combined into a single nationwide marketing team.

Under this more effective customer-oriented set-up, each sales representative is trained to represent the full Meyer line.

One promising new product introduced during 1968 is the heat shrink film wrapping machine. Designed primarily for the beverage and brewing industries, it utilizes transparent flexible plastic film to wrap the popular six-pack packages of canned beer and soft drinks.

Market research is currently being conducted to determine the adaptability of the shrink-wrapping principle to a variety of products that lend themselves to multi-packing.

A high-speed labeling machine specifically developed for non-returnable bottles was introduced and sold to the soft-drink industry for the first time last year. Meyer is already the leading supplier of beer labeling equipment, and the new equipment is expected to greatly improve its penetration of the labeling market for all one-way beverage bottles. The cold bottle of beer you enjoy while watching TV was probably filled, labeled, pasteurized, and inspected by Meyer equipment.

Other important new products include a labeling machine to apply government revenue stamps to bottles of distilled spirits; a high-speed in-line machine for rinsing non-returnable bottles, a high-speed can filler; a high-speed electronic empty-bottle inspector; and a case palletizer for high palletizing of beverage cans.

Meyer's continuing product development program is placing added emphasis on the development of new markets for its packaging machinery among processors of food, household goods, personal products and other users of bottles, and metal, glass, or plastic containers.

International operations, which account for a substantial per cent of sales, are also being looked to as a source of future expansion. With subsidiaries in England, France, and Mexico that manufacture Meyer brand equipment and also sell machinery made in domestic plants, this division is in an excellent position to improve its volume of new business in Europe, Africa, the Near East, and South America, where the beverage market is expanding at a much faster rate than in the United States.

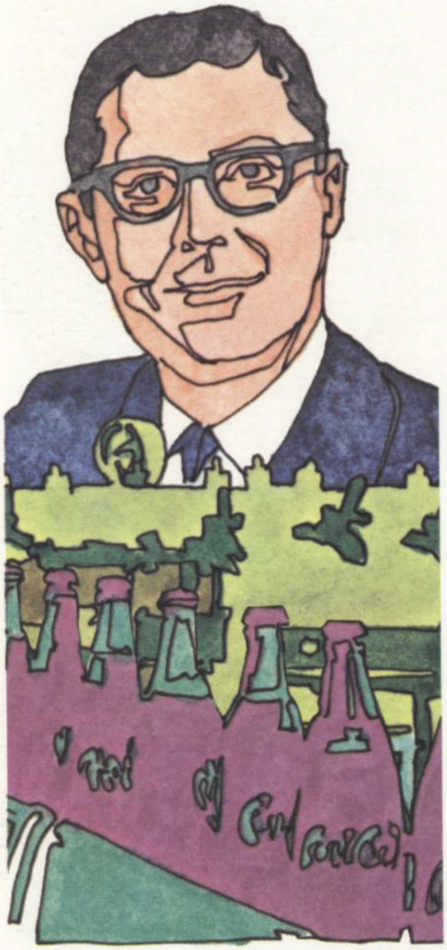
Some idea of the overseas potential of this market is the fact that in many of the world's presently underdeveloped countries, proportionately few people have ever tasted a soft-drink.

Great growth potential exists in Japan, Australia and emerging countries throughout the free world where Meyer is represented by licensees, independent agents, or its own sales force.

Speaker Sortation Systems

Strong sales gains in 1968 firmly established this division as the nation's number one supplier of high-speed package sorting systems.

Its electronically controlled sortation equipment is designed to sort random packages of varying sizes according to a predetermined code. In one application, for example, parcels are moved from storage bins and consolidated into



Meyer is the only American manufacturer marketing all required items of equipment for a fully automated beverage bottling and labeling system. Donald Taylor, above, former vice president and general manager of the division, was promoted to president last December when George L. N. Meyer, Jr. was elected a group vice president of the corporation.

individual customer orders; in another, random parcels from storage are sorted according to designated shipping points. The analog memory units for controlling the sortation equipment are designed and built by the division.

Highlights of the year included federal contract awards for automatic sortation units at U. S. post offices in Milwaukee and Boston and the Army Supply Depot in Sacramento.

Large commercial contracts were also received from major retailing and airline companies throughout the United States.

An outstanding feature of one firm's $20-million mail-order distribution center is a high-speed automated sortation line that processes up to 20,000 parcels an hour while sorting them into as many as 624 different orders. This system is three times faster and delivers three times more merchandise per hour than any other in the country.

To fully develop the growing market potential for this type of equipment, a major expansion of Speaker's sales organization is scheduled for the current year. New products designed to lower labor costs include a vertical baggage lift, an improved mail-order operations loader, a freight-type loader, and a disc-type memory unit for computerized sortation systems.

Two of the division's most promising markets are truck terminals and airline terminals. The latter's cargo and baggage-handling facilities are being taxed by the growing volume of airline business and the use of larger passenger and cargo planes.

Logan

Markets for this division — whose reputation for engineering excellence has firmly established the Logan name in the forefront of the material-handling industry — exist wherever large volumes of unit loads must be moved efficiently and continuously. Significant growth areas for Logan conveyor systems include warehouses and distribution terminals, airline cargo and baggage-handling facilities, bottling plants, corrugated container plants, and heavy industry.

An extensive marketing reorganization was carried out during 1968 to improve product planning and direction of the total marketing function.

By the final quarter of the year, inquiries and new orders for conveyors were coming in at a strong rate, providing a good sales base for the start of the current year.

The briskly rising rate of crime, vandalism, and civic commotion is creating unprecedented demand for Logan's window guards, folding scissors-type security gates and related products. Industrial and commercial demand for woven wire partitions has maintained its steady growth.

Speaker Sortation Systems President James F. Parsons, left, formerly served as vice president and general manager of this division and has 17 years executive experience in the materials handling industry. President of the Logan division is Phillip K. Bridgham, right, who directed the operations of Logan prior to its acquisition by "Automatic" in 1968.

Electrical and Electronic Instrumentation

"Automatic's" areas of activity in the electrical and electronic instrumentation field include air and water pollution detection and control, sophisticated communications and guidance systems, advanced navigational techniques, and oceanographic equipment. During 1968 divisions in this group were responsible for 9.9 per cent of "Automatic's" sales.

"Automatic" divisions in the electrical and electronic instrumentation group possess a broad spectrum of engineering skills, technological expertise, and development capability that can be adapted to a wide range of defense, aerospace, industrial and commercial applications.

Interstate Electronics

This division's sales grew substantially during 1968 but profits declined, due to heavy development costs incurred on the C-5A program. This year the division expects continued growth in sales and with the C-5A development write-offs completed, an improved profit picture is anticipated.

Interstate Electronics continues in its role as the prime contractor for test instrumentation in the U. S. Navy's Polaris/Poseidon Fleet Ballistic Missile program.

Its activities include analytical and management support to the government in developing and conducting test programs ranging from research and development to fleet operational testing. It is also directly involved in the development and production of complex instrumentation and telemetry systems, and the operation and maintenance of these systems around the world.

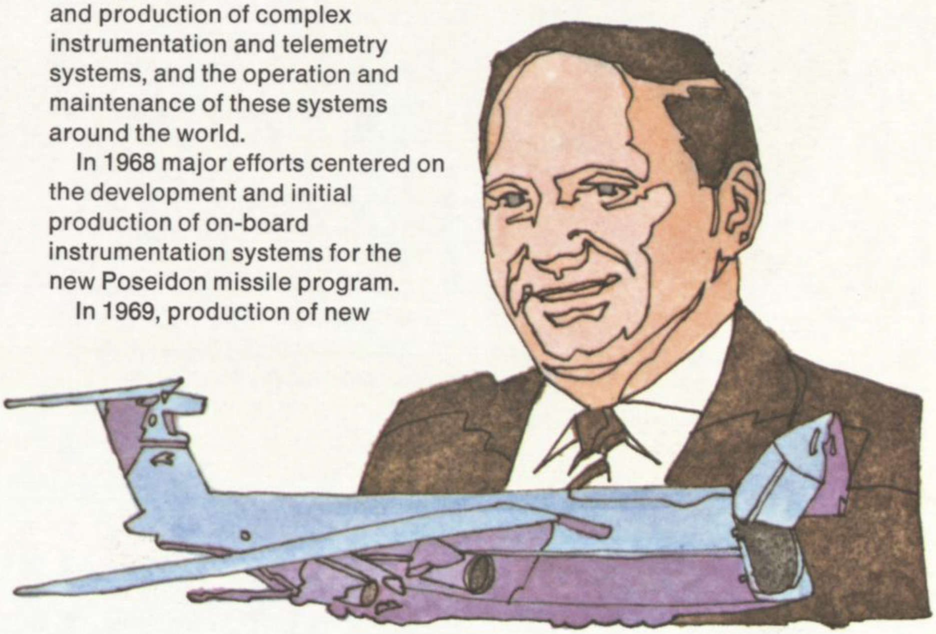
In 1968 major efforts centered on the development and initial production of on-board instrumentation systems for the new Poseidon missile program.

In 1969, production of new Poseidon instrumentation systems will continue under current and new contracts. Other contracts are being sought as a result of engineering definition work performed in 1968.

Avionics equipment designed by Interstate Electronics for the Lockheed C-5A Galaxy military transport is now in production. Interstate supplies several components for an in-flight checkout system for visual display of performance parameters.

The first C-5A follow-on production orders are anticipated in early 1969, with deliveries programmed through 1974. As a direct result of the division's research and development expenditures on the C-5A program, Interstate has acquired new technological capabilities in the field of avionics which now put it in a position to compete successfully with major aerospace firms for new contracts.

In the field of marine science,



Interstate Electronics, headed by President Alfred V. Gangnes, designs and produces avionics equipment for the Lockheed C-5A Galaxy military transport. The division is also an important participant in a number of top-priority government projects involving sophisticated missile instrumentation systems, tracking devices and oceanographic research.

Interstate was awarded a cost-plus Navy contract for the development, design, and fabrication of a deep-ocean electronic data collection system. Dubbed the Sea Spider, this nuclear-powered system is to be anchored this year miles below the surface of the Pacific Ocean.

Several new instruments were successfully introduced by Interstate's Data Product group during 1968, including a low-level multiplexer, a telemetry signal combiner, and improved models of phase-lock tracking filters.

Production models of an advanced new telemetry receiver (the only receiver on the market meeting the new pre-detection signal-combining requirements of current government programs) developed during 1968 have been delivered to the Navy and are exceeding performance expectations in acquiring data from test missile firings.

The division recorded another major technological breakthrough in the field of acoustical signal processing with development of a spectrum analyzer for use in submarine detection, identification, and tracking.

The current backlog of business, the anticipated contracts programmed for this year and the outstanding potential resulting from development activities in previous years indicate a continued growth for Interstate Electronics.

An outstanding firm in the field of electronic technology, this division is expected to play an increasingly important role in the corporation's overall growth.

Electronic Concepts

Electronic Concepts division, a manufacturer and marketer of electronic navigational equipment, works closely with International Engineering division and Interstate Electronics in developing systems for the armed forces and exploring their potential applications for the civilian market.

During 1968 the division performed close to programmed levels. Since becoming part of "Automatic" in 1967, its sales have nearly tripled.

To accommodate the division's rapidly expanding requirements, new offices and manufacturing facilities were constructed in 1968.

In addition to Loran equipment for use aboard Navy, Coast Guard, and commercial vessels, Electronic Concepts manufactures radar systems and solid-state automatic direction finders. Many of its contracts are obtained in open bidding in direct competition with the nation's largest electronic companies.

One of the division's most dramatic achievements to date is the joint development with other "Automatic" divisions of the Manpack portable electronic position finder. Developed under a U. S. Army contract, the micro-miniaturized device enables infantrymen to locate their positions quickly and accurately—even in the densest jungles—without any other reference points.

International Engineering

International Engineering division is a consulting and engineering service to business and government.

Once Vietnam hostilities cease, it is expected that a major portion of the defense budget will be earmarked for research designed to develop new generations of electronic weaponry. International Engineering should benefit directly through funded contracts and indirectly in its role as a consultant to other electronic firms.

During 1968 the division concentrated its efforts on

Under the direction of President John E. Zentmeyer, Electronic Concepts has nearly tripled its sales in less than two years as an operating unit of "Automatic". A designer and producer of sophisticated navigation equipment for commercial and military applications, this rapidly growing division moved into a modern new manufacturing facility during 1968.

development of a new line of Loran navigation equipment utilizing the most advanced large-scale integrated microcircuit technology. Applications for this new equipment include aircraft navigation, traffic control, weapons guidance, and tactical reconnaissance.

In other areas, demonstrations and system designs of positioning and locating systems utilizing the retransmission of Loran C/D information were accomplished. Two industry licensing agreements were undertaken to apply this technique to tactical warfare problems, and the division received a study contract to apply similar techniques to the Omega long-range navigation system.

Scott-Davis

Steadily increasing expenditures by business and government for the detection, measurement and control of air pollution are spawning a fast-developing market for electronic instruments manufactured by Davis Emergency Equipment.

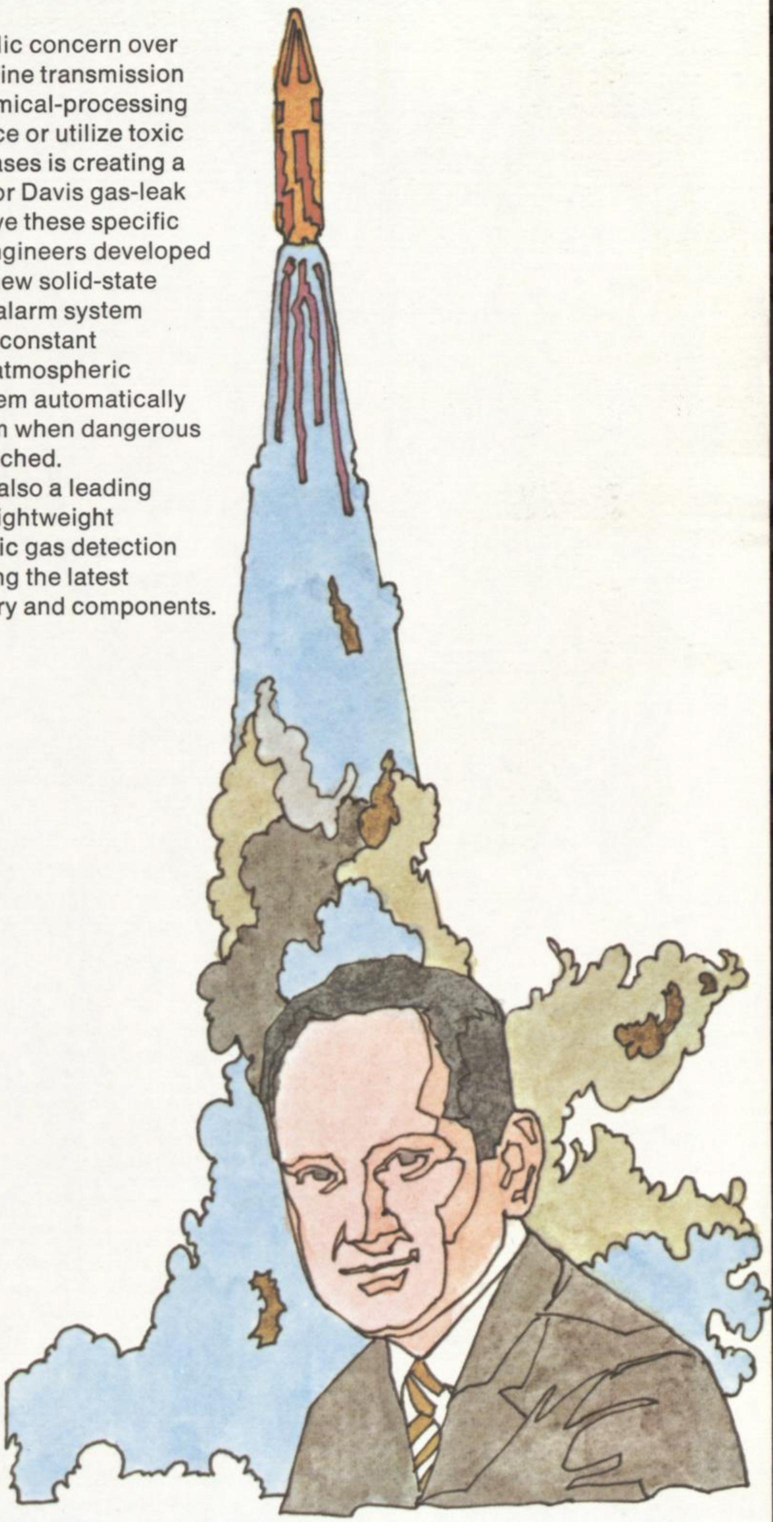
Davis, now combined with Scott Aviation, has long been a leading producer of electronic detection equipment for combustible and toxic gases and is now establishing a firm foothold as a supplier of air pollution control devices.

Davis instruments are now being used in a monitoring and data-collecting system for measuring air pollutants in one of the nation's largest cities. As additional local, state and federal funds become available, more and more metropolitan areas are expected to purchase similar equipment.

A sizable industrial market also exists for the new Davis SO_2 stack gas monitor, a device for determining the amount of sulfur dioxide emitted by power plants and other facilities that burn high sulfur content fuels. Laws requiring this type of monitoring device on certain types of power plants have already been passed or are pending in many states.

Increasing public concern over the safety of pipeline transmission facilities and chemical-processing plants that produce or utilize toxic or combustible gases is creating a growing market for Davis gas-leak detectors. To serve these specific markets, Davis engineers developed a highly reliable new solid-state combustible gas alarm system which provides a constant measurement of atmospheric content. The system automatically activates an alarm when dangerous gas levels are reached.

The division is also a leading manufacturer of lightweight portable electronic gas detection equipment utilizing the latest electronic circuitry and components.



International Engineering's staff of creative electronics consultants, directed by President Elmer M. Lipsey, played a key role in the development of the Loran D tactical navigation concept and of a new technique for precision long-range missile guidance. This division is now working on an advanced Loran system utilizing large scale integrated microcircuitry.

Consumer Recreation Products

"Automatic's" consumer products include a full line of sporting goods; vacuum cleaners, home fire and burglar alarms; tent trailers, mobile homes and trailer running gear; small refrigerators and appliances; gymnasium seating, bleachers, and playground equipment; ornamental ironwork, mattresses and box springs; home and auto fire extinguishers.

Reflecting the national emphasis on physical fitness, active participation in sports has become a way of life for millions of Americans at every age level. With more leisure time, more disposable income, and a growing awareness that exercise is essential to both physical and mental well being, people are turning in increasing numbers from sedentary to more strenuous pastimes.

Spurred by the heightened interest in sports, annual sales of athletic equipment soared from $1 billion in 1947 to an estimated $3.65 billion in 1968. Dollar volume for the six major categories of sporting goods — baseball, basketball, boxing, football, golf, and tennis equipment—has been racing ahead of the growth of the overall economy, and the outlook is excellent for continued growth.

Time and money are the two key ingredients for expansion of the recreation market, and today's affluent American has ample amounts of each to spend. Population factors are highly favorable, too. An expected increase of over 12 million in the 15-to-29-year-old-age group by 1975 provides good basis for the industry's cheerful long-term projections.

Rawlings Sporting Goods

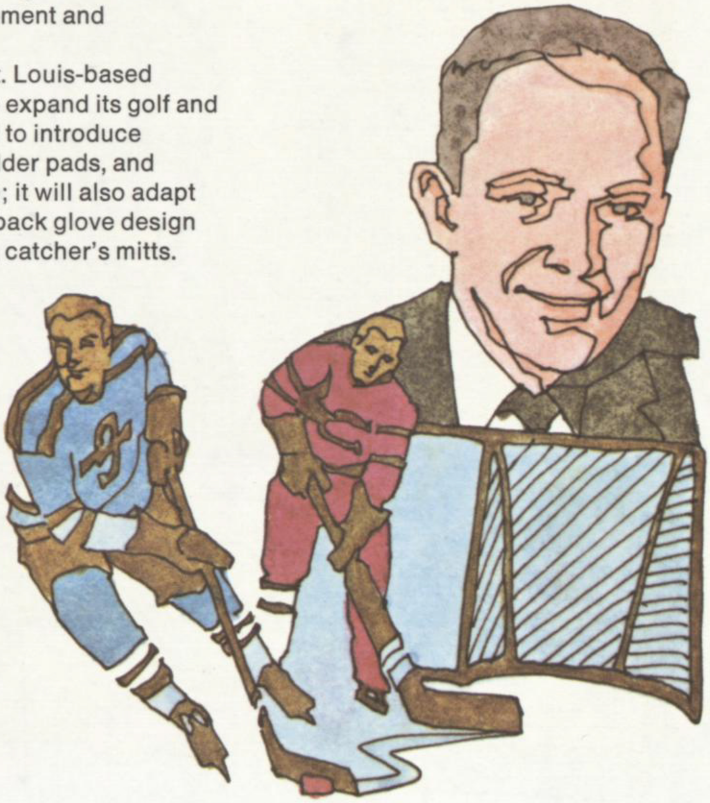
Rawlings division, a full-line manufacturer of sporting goods acquired by "Automatic" in 1967, celebrated its 70th anniversary with the most successful performance in the company's history.

While 1968 was a good year for the entire industry, Rawlings' sales increase over 1967 was more than twice the estimate of industry performance, reflecting increased penetration of present markets, its prominent position in the industry, and the ability of an innovative management.

One factor that contributed importantly to the division's outstanding 1968 achievement was a licensee agreement entered into with National Football League Properties, Inc. for rights to exclusive use of all NFL team names and insignia on Rawlings' retail line of football equipment. Strong demand for this popular NFL-endorsed football line also helped to open profitable new high-volume outlets for other Rawlings products with department stores and mass merchandising chains.

Rawlings now has under contract as autographees or members of its advisory staff over 100 major-league baseball players, professional football players and coaches, leading college coaches, and professional basketball players. Rawlings also consults regularly with panels of sports experts for guidance on product development and modification.

In 1969, the St. Louis-based division plans to expand its golf and tennis lines, and to introduce armor-flex shoulder pads, and joggers clothing; it will also adapt its popular Fastback glove design to first-base and catcher's mitts.



Rawlings Sporting Goods Company is a leading supplier of uniforms, equipment and accessories for amateur, scholastic and professional athletic teams. Division President Robert D. Brown, above, served as both president and chairman of the board of this 70-year-old full-line sporting goods company before it became part of "Automatic" in 1967.

Endorsed and promoted by Mickey Mantle, the revolutionary hand-hugging Fastback gained immediate acceptance among professionals and amateurs when introduced as a fielder's glove last year. Almost seven out of 10 major leaguers now use Rawlings' gloves and eight out of 10 wear Rawlings' baseball shoes.

Following the spectacular success last year of the custom-fitted Headliner football helmet, which was quickly selected for its safety features by a large number of professional and collegiate teams, Rawlings will market in 1969 a revolutionary new type of football shoulder pads.

Specially designed and constructed of a patented air-cushioned plastic foam material that molds itself to the player's physique, the flexible snug-fitting new Defender pads afford extra protection by cushioning and dispersing shock better than conventional equipment.

Based on the enthusiastic reports of professional players who have tested the new equipment and initial response by Rawlings' network of 1,800 authorized dealers, the company expects introduction of the Defender shoulder pads to reinforce its established position as the nation's leading manufacturer of football protective equipment.

Through aggressive sales programs, accelerated product development, and expansion of product lines to increase its share of the overall recreational market, the division is forecasting strong growth in sales volume and profits over the next several years.

Compact-Vanguard

One of the major accomplishments of 1968 was the total reorganization of Interstate Engineering's consumer-product marketing operation. The demoralizing sales decline that resulted from a mid-1967 U. S. District Court decision, restricting future use of owner-recommendation selling by Interstate distributors, was later followed by an FTC ruling prohibiting Interstate distributors from using an alternate sales program.

The monumental task of restructuring Interstate's sales promotion policy and of rebuilding its distributor organization is showing definite progress. With volume stabilized and morale restored, the division has re-established its growth base. More time will be needed, however, for vacuum cleaner and home fire alarm sales to reach previous levels.

To increase its penetration of the residential market for protective devices, the division will soon begin development of a new household burglar alarm. Its Vanguard home fire alarms, which have been commended by Parents magazine, are the largest selling devices of their kind in America. They have been installed in more homes than all other competitive makes combined.

Hadco

In another area of "Automatic's" consumer-recreation operations, sharp increases in registrations of recreational vehicles and the booming mobile-home market resulted in another record year for the Hadco division, a manufacturer and distributor of trailer running gear, appliances and light-tent camping trailers.

Stimulated by the housing shortage, climbing real estate costs and tight money, trailer sales are rolling along in high gear. They already account for more than 20 per cent of the total U. S. housing market and this share is expected to grow as more young couples and annuitants discover the conveniences and economies offered by low cost, easy-to-finance mobile homes. Some 340,000 of them are expected to be produced in 1969, about 19 per cent more than in 1968. That's equal to more than one-third of the single-family houses that will be built without wheels.

Basic growth trends in the mobile home and recreational

Ruggedly constructed "Compact" vacuum cleaners and "Vanguard" fire alarms are popular household appliances produced by Interstate Engineering. President of this division is Robert W. Limacher, an Interstate executive for the past 29 years. Attractive "Colonel Logan" brand wrought-iron room dividers are manufactured by the Logan division.

vehicle markets are expected to continue for the foreseeable future and Hadco's growth is forecast at a rate twice that of the rate projected for the economy in general.

Through aggressive sales efforts, the division in 1968 penetrated markets in the Midwest and East.

During 1969, Hadco will expand its line of LPG refrigerators for recreational vehicles with the introduction of two new models. The division's line of Sherwood tent trailers will also be enlarged.

Safway

Safway Steel Products division entered 1969 with the largest backlog of seating orders in its history.

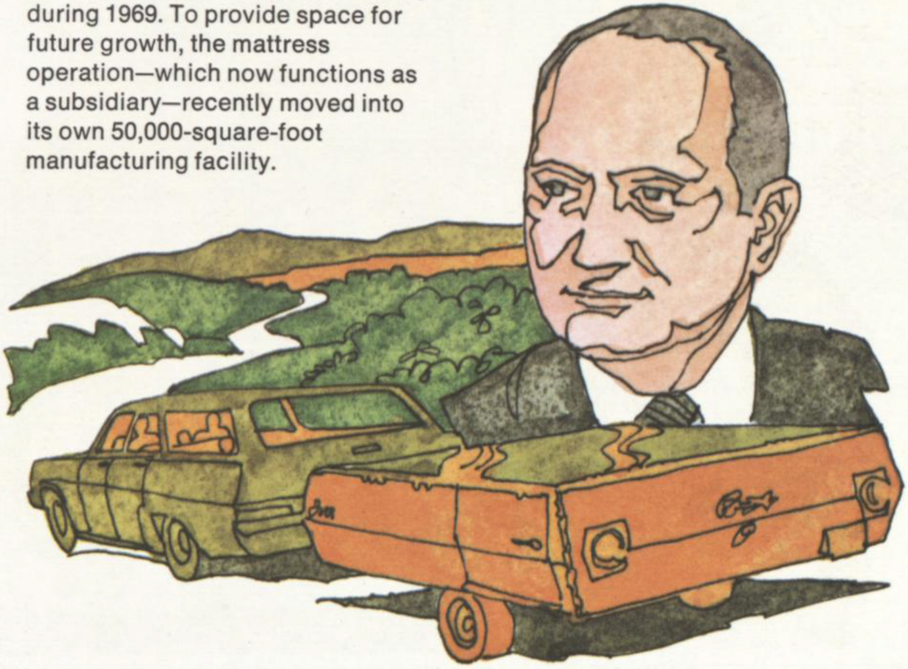
When you attend a football game at the high-school stadium, or watch a basketball game in the college gymnasium, the bleachers and chair-risers you sit on may have been installed by Safway's seating products division.

You'll also find Safway recreational products in your parks and school yards. They carry the name "Everlast."

Logan

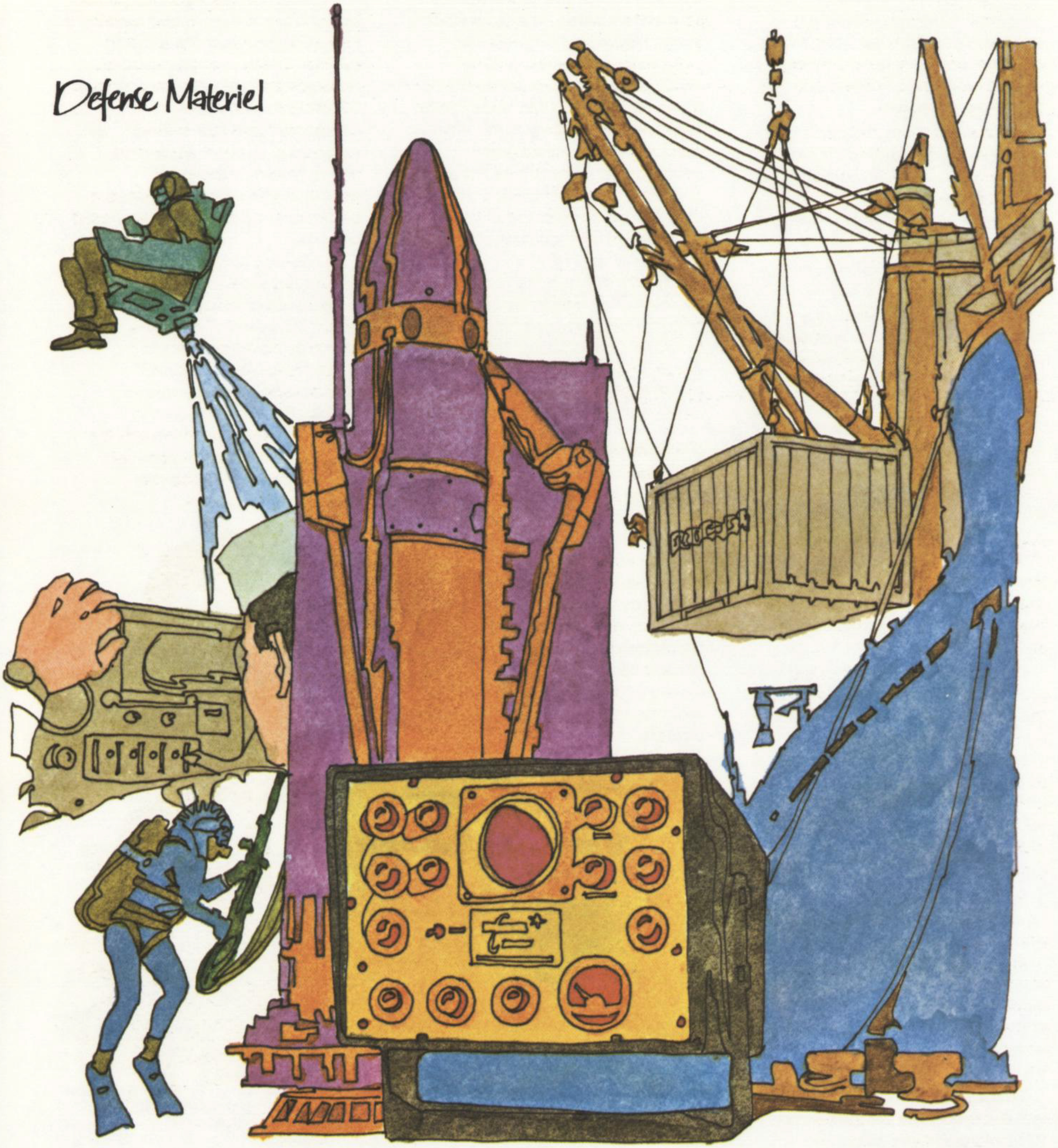
With the use of ornamental ironwork growing in popularity among architects and interior decorators, Logan division is confident of maintaining its sales momentum in this area. The company markets wrought-iron railings, columns, accessories and spiral staircases through a coast-to-coast distributor organization. Since 1966 the complete line of "Colonel Logan" ornamental iron products has been featured in all Montgomery Ward catalogs and displayed and sold in more than 400 of that organization's chain of retail stores.

Logan is also a franchised manufacturer of the famous Sealy line of Posturepedic mattresses and box springs. Last year the division received the Sealy National Quality Award for manufacturing excellence in competition with all other Sealy franchisees. Sales of mattresses are expected to be the biggest in the company's history during 1969. To provide space for future growth, the mattress operation—which now functions as a subsidiary—recently moved into its own 50,000-square-foot manufacturing facility.



The camping boom is creating record demand for tent trailers, above, produced by the Hadco division, acquired with Interstate Engineering in 1967. Glendon O. Fox, an Interstate executive since 1952, heads Hadco operations. Sturdy Safway playground equipment, top, includes contemporary design climbing towers, slides, swings and picnic tables.

Defense Materiel



"Automatic" ranks as a major defense contractor through Baifield and other divisions serving this huge market. The corporation entered this field in 1967 recognizing that military spending will continue at a high level for the foreseeable future and that technology acquired through defense projects often can have valuable commercial applications.

Although Baifield is the only "Automatic" division devoted exclusively to defense work, the corporation as a whole last year ranked among the nation's top 100 defense contractors.

But a substantial portion of this business is unrelated to Vietnam requirements, and the corporation should actually benefit when the Southeast Asian conflict is brought to a close.

Baifield

Acquired in 1967, Baifield is a modern metal-fabricating operation with three plants in the Southwest. It manufactures 105 mm. anti-tank shell casings, air-to-ground guidance systems and weapons dispensers, missile components, and other ordnance items.

The losses incurred by Baifield during 1968 accounted in a large part for the corporation's poor profit performance for the year. Principal factors in the multimillion dollar writeoff were unexpectedly high costs incurred in the 105 mm. shell casing contract.

Despite the magnitude of the problems encountered during 1968, this division has the capability to become an important profit producer. Emphasis is now being directed to long-range growth through the development of technological skills and diversification in defense and other markets.

Since November, 1968, contracts have been received through fixed-price competition for production of additional "Snakeye" fin assemblies, air-to-ground weapons dispensers and special-purpose and standard containers. These new orders have increased Baifield's backlog by $9 million.

The $2.3-million contract received last December for production of 2,000 standard van shipping containers represents the first contract awarded for this product by the Department of Defense.

Baifield sees an expanding military and commercial market for these containerization units, which have been described as the most revolutionary transportation development in centuries. Packed and sealed at the shipper's door, they can be transported anywhere in the world by truck, rail, ship, or cargo plane.

Experts estimate that over 80 per cent of all freight lends itself to containerization and if, as predicted, up to 50 per cent of general cargo is containerized by 1975, the number of containers needed will soar to 450,000.

Scott-Davis

Scott has developed emergency breathing systems for the Navy's Polaris nuclear submarine fleet, solid-state oxygen equipment for standby use in the safety chambers of the Saturn missile launching sites, survival kits for U. S. and NATO fighter planes, fuel-cell regulators such as those used on the Apollo "moon shots," and a variety of high-altitude oxygen systems and equipment for military aircraft.

Scott is also one of the few qualified producers of underwater life support breathing equipment and has participated in a number of important government-sponsored underwater exploration projects.

The division was recently picked by the Navy to design and develop a complete swimmer life-support system for use in oceanographic research projects. The new system will include every device, component and sub-system required to support aquanauts under any environmental condition and allow independent underwater operation for extended periods.

In addition to Baifield, Scott and the previously mentioned divisions in the electronics group, several other "Automatic" divisions, primarily manufacturers of products for industrial and commercial markets, enjoy a substantial dollar volume in federal government contracts by supplying these same products for defense and aerospace-oriented applications.

Air-to-ground guidance systems, weapons dispensers and missile components are important military products produced for the United States government by "Automatic's" Baifield division. Daniel B. Watters, who joined Baifield in 1966 as vice president after 18 years with a major defense contractor, was promoted to president of this division in mid-1968.

Consolidated Balance Sheets December 31, 1968 and 1967	**1968**	**1967** Restated (Note 1)	**1967** Previously Reported
Assets			
Current assets:			
Cash, including time deposits of $4,500,000 in 1968 and $7,275,000 in 1967	**$ 11,273,000**	$ 15,894,000	$ 12,134,000
Accounts and notes receivable, less allowance for uncollectible accounts of $1,655,000 in 1968 and $1,777,000 in 1967	**56,322,000**	58,893,000	43,472,000
Inventories, generally at first-in, first-out cost, not in excess of market, net of progress payments of $9,807,000 in 1968 and $12,924,000 in 1967	**63,577,000**	68,115,000	54,035,000
Prepaid expenses	**1,798,000**	2,319,000	1,783,000
Total current assets	**$132,970,000**	$145,221,000	$111,424,000
Investments, at cost (Note 7)	**$ 29,607,000**	$ 9,966,000	$ 9,339,000
Property, plant and equipment, at cost (Note 3):			
Land and land improvements	**$ 2,199,000**	$ 1,974,000	$ 1,490,000
Buildings and leasehold improvements	**21,509,000**	20,910,000	15,304,000
Machinery and equipment	**26,927,000**	25,570,000	18,347,000
Rental equipment	**7,250,000**	7,000,000	5,994,000
Other	**6,487,000**	5,728,000	4,197,000
	$ 64,372,000	$ 61,182,000	$ 45,332,000
Less — accumulated depreciation and amortization	**25,378,000**	22,569,000	15,161,000
	$ 38,994,000	$ 38,613,000	$ 30,171,000
Other assets:			
Real property not used in business, net	**$ 2,782,000**	$ 2,476,000	$ 2,476,000
Debt discount and expenses	**2,956,000**	834,000	834,000
Other	**3,646,000**	9,484,000	3,891,000
	$ 9,384,000	$ 12,794,000	$ 7,201,000
	$210,955,000	$206,594,000	$158,135,000

The accompanying notes are an integral part of these statements.

"Automatic" Sprinkler Corporation of America and Subsidiaries

	1968	1967 Restated (Note 1)	1967 Previously Reported
Liabilities and Shareholders' Equity			
Current liabilities:			
Notes payable	**$ 7,656,000**	$ 22,157,000	$ 16,729,000
Current maturities of long-term debt	**8,790,000**	3,439,000	3,065,000
Accounts payable	**13,529,000**	20,881,000	18,011,000
Accrued liabilities	**13,921,000**	11,702,000	8,494,000
Accrued Federal income taxes (Note 2)	**—**	3,831,000	2,131,000
Total current liabilities	**$ 43,896,000**	$ 62,010,000	$ 48,430,000
Long-term debt (Note 3):			
Notes and mortgages payable	**$ 58,331,000**	$ 45,379,000	$ 37,047,000
6% Subordinated debentures	**7,277,000**	—	—
4⅜% Convertible subordinated debentures	**25,000,000**	25,000,000	25,000,000
	$ 90,608,000	$ 70,379,000	$ 62,047,000
Deferred Federal income taxes	**$ 1,500,000**	$ 1,737,000	$ 845,000
Minority interest	**$ —**	$ 2,424,000	$ —
Shareholders' equity:			
Serial preference shares, $100 par value, authorized 123,000 shares, issued and outstanding 52,732 shares (Note 4)	**$ 5,273,000**	$ 5,273,000	$ 5,273,000
Preference shares, $1 par value, authorized 1,000,000 shares, issued 278,788 shares, outstanding 221,376 shares in 1968 and 255,411 shares in 1967 (liquidation preference $22,138,000 in 1968), stated at (Note 4)	**4,363,000**	5,034,000	5,034,000
6% Convertible preferred shares, $100 par value, authorized and issued 10,000 shares, outstanding 1,230 shares in 1968 and 2,230 shares in 1967 (Note 4)	**123,000**	223,000	223,000
Common shares, 10 cents par value, authorized 18,000,000 shares at December 31, 1968, outstanding 6,814,070 shares in 1968 and 6,472,580 shares in 1967 (Notes 4 and 5)	**681,000**	647,000	529,000
Capital surplus	**17,408,000**	10,672,000	7,023,000
Retained earnings (Note 3)	**47,103,000**	48,195,000	28,731,000
	$ 74,951,000	$ 70,044,000	$ 46,813,000
	$210,955,000	$206,594,000	$158,135,000

Consolidated Statements of Income
for the years ended December 31, 1968 and 1967

	1968	1967 Restated (Note 1)	1967 Previously Reported
Net sales	**$325,228,000**	$302,132,000	$242,327,000
Costs and expenses:			
Cost of sales	**$263,099,000**	$230,275,000	$187,156,000
Selling, general and administrative expenses	**56,181,000**	50,565,000	37,768,000
Interest expense	**6,828,000**	3,786,000	3,505,000
Other income, net	**(2,812,000)**	(1,248,000)	(760,000)
	$323,196,000	$283,378,000	$227,669,000
Income before provision (credit) for taxes on income	**$ 2,032,000**	$ 18,754,000	$ 14,658,000
Provision (credit) for taxes on income (Note 2)	**(89,000)**	7,705,000	5,465,000
Net income	**$ 2,121,000**	$ 11,049,000	$ 9,193,000
Per common share (Note 4)	**$.10**	$1.45	$1.43
Per common share assuming exercise of stock options and warrants and conversion of convertible securities (Note 4)	**$.10**	$1.39	$1.41

Consolidated Statements of Retained Earnings
for the years ended December 31, 1968 and 1967

	1968	1967 Restated (Note 1)	1967 Previously Reported
Balance beginning of year	**$ 48,195,000**	$ 40,123,000	$ 21,651,000
Net income	**2,121,000**	11,049,000	9,193,000
Dividends declared:			
Preferred and preference shares	**(1,434,000)**	(616,000)	(616,000)
Common shares	**(732,000)**	(488,000)	(488,000)
Transactions applicable to pooled companies, prior to dates of pooling	**—**	(1,873,000)	(1,009,000)
Prior period adjustment — additional Federal income taxes for prior years (Note 2)	**(598,000)**	—	—
Cost of reacquisition of warrants to purchase common shares	**(449,000)**	—	—
Balance end of year (Note 3)	**$ 47,103,000**	$ 48,195,000	$ 28,731,000

The accompanying notes are an integral part of these statements.

Consolidated Statement of Change in Capital Shares
for the year ended December 31, 1968

	Serial Preference Shares, $100 Par Value	Preference Shares, $1 Par Value	6% Convertible Preferred Shares	Common Shares
Balance beginning of year	$5,273,000	$5,034,000	$223,000	$647,000
Conversion of preference shares, $1 par value (22,567 shares, First Series and 11,468 shares, Second Series), and 6% Convertible Preferred (1,000 shares)	—	(671,000)	(100,000)	11,000
Common shares issued upon exercise of stock options	—	—	—	3,000
Common shares issued in connection with investments and acquisitions	—	—	—	20,000
Balance end of year	$5,273,000	$4,363,000	$123,000	$681,000

Consolidated Statements of Capital Surplus
for the years ended December 31, 1968 and 1967

	1968	1967 Restated (Note 1)	1967 Previously Reported
Balance beginning of year	**$10,672,000**	$ 8,728,000	$5,364,000
Proceeds in excess of par value of common shares issued under stock options	**258,000**	131,000	131,000
Par or stated value of convertible preferred and preference shares in excess of par value of common shares issued upon conversion	**757,000**	1,907,000	1,907,000
Market value in excess of par value of common shares and warrants issued in connection with investments and acquisitions	**5,768,000**	—	—
Other	**(47,000)**	(94,000)	(379,000)
Balance end of year	**$17,408,000**	$10,672,000	$7,023,000

The accompanying notes are an integral part of these statements.

Consolidated Statement of Source and Application of Funds
for the year ended December 31, 1968

Source of funds:	
Net income	$ 2,121,000
Depreciation (generally straight-line) and amortization	4,822,000
Total from operations	$ 6,943,000
Proceeds from exercise of stock options	261,000
Issuance of subordinated debentures	7,277,000
Increase in other long-term debt, net	12,715,000
Common shares and warrants issued in connection with investments and acquisitions	5,780,000
Change in long-term receivables, patents and other, net	3,230,000
	$36,206,000
Applications of funds:	
Purchase of fixed assets, net	$ 5,065,000
Investments (obtained partially in exchange for debentures, common shares and warrants to purchase common shares), acquisition of minority interest and reacquisition of warrants	22,514,000
Dividends declared	2,166,000
Federal income taxes on prior years' income	598,000
	$30,343,000
Net increase in working capital	$ 5,863,000

The accompanying notes are an integral part of this statement.

Notes to Consolidated Financial Statements December 31, 1968

1. Principles of Consolidation and Acquisitions:

The accompanying consolidated financial statements include the accounts of the Company and, with minor exceptions, its wholly-owned subsidiaries. All material intercompany accounts and transactions have been eliminated. The 1967 consolidated financial statements have been restated to include the accounts of a company acquired during 1968 in a pooling-of-interest transaction. The results of operations of purchased businesses have been included since the date of acquisition.

2. Federal and Puerto Rican Taxes on Income:

In 1969, the Company agreed to the reallocation, for Federal income tax purposes, of a portion of its Puerto Rican subsidiaries' earnings for the years 1959 through 1965 to the Company. The resultant Federal income taxes payable have been reflected in the accompanying financial statements as a prior year adjustment. In the opinion of management, similar reallocations for the years 1966 through 1968, if made, would not be material.

The provision for Federal income taxes does not bear the customary relationship to pretax income for the years ended December 31, 1968 and 1967, due primarily to earnings ($1,066,000 in 1968 and $2,106,000 in 1967) of two subsidiaries with operations in Puerto Rico on which no significant Federal or Puerto Rican income taxes are payable, a reduction in the provision for Federal income taxes by an amount equal to the investment tax credit and, in 1968, dividend income on which no substantial Federal income taxes are payable.

The $89,000 credit for taxes on income for the year ended December 31, 1968, consists of taxes estimated to be currently payable of $1,603,000, net of reductions in deferred taxes of $1,692,000 due to timing differences. The company made estimated Federal income tax payments during the year in excess of the amount currently payable for the year, including the taxes on prior years' income referred to above. The net amount of refundable Federal income taxes has been included with accounts and notes receivable in the consolidated balance sheet.

The present ten-year income tax exemptions granted by the Commonwealth of Puerto Rico to the Company's subsidiaries will expire in 1969 and 1972.

3. Long-Term Debt:

Long-term debt at December 31, 1968 and 1967, consisted of:

	1968	1967
6⅜% Sinking fund notes, due 1970 to 1981	$ 6,700,000	$ 6,700,000
Notes payable to banks in $2,000,000 quarterly installments .	38,500,000	—
Notes payable to banks, due 1970	12,500,000	14,750,000
2½% to 7% Mortgage notes, payable in various installments to 1988	6,958,000	4,715,000
Other	2,463,000	22,653,000
	$67,121,000	$48,818,000
Less—Current maturities . . .	8,790,000	3,439,000
	$58,331,000	$45,379,000
6% Subordinated debentures, due 1988	$ 7,277,000	$ —
4⅜% Convertible subordinated debentures, due 1987	$25,000,000	$25,000,000

In May, 1968, the Company obtained a $40,000,000 term loan at a rate of 1% above the prevailing prime rate and prepaid certain other long-term debt with part of the proceeds thereof.

The notes payable to banks, due 1970, bear interest at 1% above the prevailing prime rate.

The 4⅜% convertible subordinated debentures are convertible into one common share for each $58.50 of principal amount and are redeemable at declining premiums until maturity. Commencing July 1, 1977, and each year thereafter until maturity, the Company is required to pay into a sinking fund an amount equal to 6⅔% of the principal amount of debentures outstanding on July 1, 1976. The conversion price of the debentures is subject to downward adjustment under certain circumstances.

The 6% subordinated debentures are redeemable at any time after October 1, 1973, at declining premiums to 1985. Commencing October 1, 1973, and each year thereafter until maturity, the Company is required to pay into a sinking fund an amount equal to 5.5% of the principal amount of debentures outstanding on October 1, 1972.

The various loan agreements provide, among other things, that the Company shall (1) maintain consolidated working capital of not less than $70,000,000; (2) maintain minimum ratios of net tangible assets to senior funded debt and to total funded debt; (3) not incur short-term debt prior to September 30, 1969, in excess of $20,000,000 and have no short-term debt after September 30, 1969, unless for a period of at least 45 consecutive days during the twelve months preceding the date of such short-term borrowing, no short-term borrowings shall have been outstanding, in which event the Company may incur additional short-term borrowings not in excess of $20,000,000; and (4) not pay cash dividends in excess of certain specified amounts.

At December 31, 1968, no retained earnings were available to pay cash dividends on common, preferred or preference shares under the above restrictions. The applicable lending institutions have agreed to allow payment of cash dividends during 1969 in an amount not to exceed the dividends paid on each class of capital shares during 1968.

4. Capital Shares:

Serial preference shares have been issued in three series. The First Series, 6% (issued 27,732 shares), are redeemable at the option of the Company anytime after April 1, 1971, with a premium to 1982. The Second Series, 5% (issued 7,500 shares), are redeemable anytime after October 1, 1969, and the Third Series, 5% (issued 17,500 shares), anytime after October 12, 1971 without premium. All of the shares have voting rights. The Board of Directors is authorized to amend the Articles of Incorporation to create one or more additional series of serial preference shares, to fix or change certain express terms of such shares and to issue such shares in one or more series.

Preference shares, $1 par value, have been issued in two series. All preference shares have voting rights and are on a parity with the serial preference shares with respect to dividends and liquidation preference. The First and Second Series are convertible into common shares at the respective rates of 3.48 and 2.62 common shares for each preference share. The terms of both series provide for redemption by the Company at any time after five years from the date of issue at $100 per share.

The 6% convertible preferred shares are redeemable in whole or in part at the option of the Company at 106% if redeemed after 1970 and with descending premiums thereafter prior to 1982 and at 100% thereafter. They are convertible at a rate of one common share for each $10.40 par value of convertible preferred shares. Dividends on all series of preferred and preference shares outstanding are cumulative.

Net income per common share for the years ended December 31, 1968 and 1967, is based upon the average common shares outstanding during each year, plus common shares issued in pooling-of-interest transactions.

Exercise of any or all stock options and warrants and conversion of any or all convertible securities would not reduce net income per common share for 1968.

As of December 31, 1968, the Company had reserved approximately 1,740,000 common shares under the stock option plan, stock purchase warrants, and the conversion rights of convertible securities.

5. Warrants and Options:

Under a qualified stock option plan approved by the shareholders, 300,000 common shares have been reserved for the granting of stock options to employees at a price equal to fair market value at the date of grant. These options are exercisable in five equal annual installments commencing one year from the date of grant.

The Company has assumed certain stock options previously granted by acquired companies. The terms of these options are not the same in all respects as the terms of options granted by the Company.

Changes in shares under option are summarized as follows:

	Shares
Balance, beginning of year	109,974
Options granted	54,438
Options assumed	35,934
Options canceled	(27,141)
Options exercised	(25,185)
Balance, end of year	148,020

At December 31, 1968, options for 148,020 shares were outstanding at prices ranging from $2.00 to $66.50 per share, and 101,569 shares were available for the granting of future options.

In connection with the acquisitions of common stock of United States Pipe and Foundry Company, more fully described in Note 7, the Company issued warrants to purchase 291,064 common shares at $30.00 per share until October, 1973, and at $35.00 per share thereafter until expiration in October, 1978. None of these warrants were exercised during 1968.

At December 31, 1968, a warrant to purchase 153,125 common shares at $.60 per share was outstanding. The warrant is exercisable on or before December 31, 1970.

6. Commitments and Contingent Liabilities:

The Company has pension plans covering the majority of its employees. Total pension expense was $1,948,000 for 1968 and $1,659,000 for 1967, which includes, generally, amortization of prior service costs over 10 to 20 years. The Company's policy is to fund pension costs accrued. The actuarially computed value of vested benefits for all plans as of December 31, 1968, was not materially in excess of the total of the pension funds and balance sheet accruals, net of pension prepayments and deferred charges. The estimated unfunded prior service cost was approximately $3,600,000 at December 31, 1968.

The Company occupies certain facilities under various leases with aggregate annual rentals of approximately $1,384,000. Total obligation under the leases, which expire at various dates through 1987, is approximately $10,627,000.

The Company has agreements with various financial institutions whereby certain receivables (arising principally from sales under long-term installment payment contracts) are sold on a limited or full recourse basis. At December 31, 1968, the Company was contingently liable for approximately $5,900,000 under these agreements. No material losses were sustained from these agreements during 1968, and management believes that no future material losses will result from these agreements.

7. Investments:

At December 31, 1968, the Company's investments (quoted market $33,920,000) included 851,264 common shares (approximately 23%) of United States Pipe and Foundry Company ("U. S. Pipe"). Certain of these shares were acquired in exchange for debentures, common shares and warrants to purchase common shares of the Company, and certain shares were acquired in cash transactions.

In February, 1968, U. S. Pipe sued the Company in the Federal District Court for the Northern District of Alabama alleging that the Company's acquisition of U. S. Pipe common stock and its proposed acquisition of additional common stock violated various Federal antitrust and securities laws. U. S. Pipe has asked that the Court enjoin the Company from voting U. S. Pipe shares owned by it and from acquiring additional shares and require that the Company divest itself of shares owned by it.

Based on information presently available, it is the opinion of legal counsel for the Company that the plaintiff's claims are without merit.

Auditors' Report
To the Board of Directors and Shareholders
"Automatic" Sprinkler Corporation of America:

We have examined the consolidated balance sheets of "AUTOMATIC" SPRINKLER CORPORATION OF AMERICA (an Ohio corporation) AND SUBSIDIARIES as of December 31, 1968 and 1967 (restated), and the related consolidated statements of income, capital surplus, and retained earnings for the years then ended, and the statements of change in capital shares and source and application of funds for the year ended December 31, 1968. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of "Automatic" Sprinkler Corporation of America and Subsidiaries as of December 31, 1968 and 1967 (restated), the results of their operations for the years then ended, and the change in capital shares and source and application of funds for the year ended December 31, 1968, in conformity with generally accepted accounting principles consistently applied during the periods.

Cleveland, Ohio,
February 14, 1969.

ARTHUR ANDERSEN & CO.

major product lines of "Automatic" Sprinkler Corporation of America

Fire Protection, Safety and Security

"Automatic" Sprinkler

Complete fire protection sprinkler installations • Special hazard fire protection installations • Sprinkler heads • Iron valves and fittings • Control consoles • Smoke, heat, rate-of-rise and ultraviolet combustion detection equipment • Alarms and activating devices.

American LaFrance

Fire engines, aerial platforms, airport rescue vehicles • Fire extinguishers • Chemical rechargers • Fire hose • Breathing apparatus and protective clothing • Brass goods • Custom-designed fixed fire extinguishing systems for special hazards.

Badger Fire Extinguisher

Complete line of portable water, CO_2 soda acid, foam, and dry chemical fire extinguishers.

Blaze Guard

Complete line of municipal, industrial, and linen fire hose • Couplings.

Powhatan Brass & Iron Works

Standpipe connections • Industrial and commercial fittings • Couplings and fog nozzles • Fire truck accessories • Brass ground key stops for gas, water and steam.

Scott Aviation

High-altitude oxygen-regulating devices • Portable and fixed oxygen-regulation devices • Cannister-type gas masks • Survival kits • Self-contained breathing apparatus • Light aircraft accessories • Solid-state oxygen.

Automatic Protection Systems

Audio-actuated intrusion detection devices • Burglar alarms • Portable holdup alarms • Automatic telephone reporting devices • Equipment monitoring systems • Surveillance cameras • Central station alarm systems.

Advance Industrial Security

Complete security systems, equipment, and personnel for business, industry, and government • Guards and watchmen • Industrial and business investigative service.

Fluid Controls and Hydraulics

Ward Hydraulics

Hydraulic cylinders • Fluid controls • Vehicle-mounted cranes

Fee & Mason

Rigid and movable pipe hangers and fittings • Engineered pipe suspension systems, including clamps, support rods, hangers and springs • Design and fabrication of pipe-suspension components for plumbing, heating, air conditioning and process piping systems.

General Fittings

Broad line of hydronic heating devices • Built-in boiler coils • External water heaters • Pressurized expansion tanks and air control packages • Water hammer arresters • Heating specialty flow fittings • Steam and hot water shell and tube-type converters and instantaneous water heaters • Fuel oil heaters and pre-heaters.

Scott Engineering Sciences

Equipment and systems for technical and engineering education • audio-visual educational equipment • electronic teaching laboratories.

Profit-Improvement Equipment

Kersey Manufacturing

Battery-powered rubber-tired mining tractors, trailers, personnel carriers and other vehicles • Battery-powered fire trucks for mining industries.

Safway Steel Products

Metal scaffolding for construction • Portable bleachers, gymnasium seats and risers • Telescoping chair risers • Light and medium contractors' equipment • Heavy-duty concrete shoring.

Hydraxtor

Integrated laundry-processing systems • Extractors • Washers • Small-piece folding equipment • Sorting and counting equipment • Feeding devices for ironers • Production recorders • Stacker-receivers • Lint traps.

Essick

Tandem tow-type and self-propelled vibrating rollers • Plaster and mortar mixers • Water pumps • Material pumps Concrete mixers • Air compressors • Plastering machines • Deadweight road rollers • Evaporative air coolers • Commercial and industrial air make-up heating and cooling equipment • Home humidifiers.

T. L. Smith

Automated bulk material-handling, storage, proportioning, mixing and hauling systems • Mixers • Belt conveyors • Bucket elevators • Turbine mixers • Truck mixers • Tilter mixers • Automated machinery for commercial laundries.

Geo. J. Meyer

Broad line of automated packaging machinery and bottling equipment • Labeling equipment • Case palletizers • Shrink film wrapping machines • Rinsing and inspection equipment.

Speaker Sortation Systems

High-speed automated package sorting systems • Analog memory units for sortation equipment.

Logan

Powered and gravity conveyor equipment and custom-engineered material-handling systems • Ornamental iron products • Window guards • Security gates • Woven wire partitions • Mattresses and box springs.

Electrical and Electronic Instrumentation

Interstate Electronics

Develops and produces sophisticated missile instrumentation systems and tracking devices • Digital computers • Circuitry • Instrumented buoy systems • Oceanographic research and instrumentation.

International Engineering

Consulting and engineering service to business and government for development of navigational systems and communications equipment.

Davis Emergency Equipment

Gas masks and respiratory devices • Fire blankets • Protective hats • Portable and continuous monitoring gas analyzers • Combustible and toxic gas analyzers and alarms • Air pollution detection and control equipment • Broad line of safety equipment • First aid kits and unit dressings.

Electronic Concepts

Research, design, and manufacture of navigational equipment for military and commercial use including radar, loran, automatic direction finders.

Consumer — Recreation

Rawlings Sporting Goods

Full line of sports equipment • Baseball gloves and baseballs • Footballs and football equipment • Basketballs and basketball equipment • Soccer equipment • Uniforms • Jackets • Shoes • Boxing equipment • Badminton equipment • Golf equipment and accessories • Hockey equipment • Tennis and track equipment • Wrestling equipment.

Compact—Vanguard

Residential smoke detectors and fire alarms • Vacuum cleaners • Floor polishers • Home-cleaning systems.

Hadco

Trailer running gear • Tent trailers, axles, brakes, and appliances.

Defense Materiel

Baifield Industries

Retarding fins for "Snakeye" bomb • Missile components • Weapon dispensers and demolition kits • Large-calibre shell cases • Shipping containers.

BOARD OF DIRECTORS

All "Automatic" directors are expert in corporate finance or operations, and all participate actively in corporate planning and evaluation of acquisitions. The board's meetings are rotated as frequently as possible from division to division, giving the directors an opportunity to be briefed and appraise firsthand the personnel and facilities of the corporation's various operations.

Of the board's 11 members, nine are outside directors:

Dale S. Coenen is president of Coenen & Company, of which Coenen Securities Corporation, a securities dealer, is a subsidiary.

Hans Ulrich Rinderknecht is chairman of the board of Cosmos Bank in Zurich, Switzerland and the principal owner of Rinderknecht & Company, an international law firm.

Harper Sibley is president of Sibley Corporation of Rochester.

George R. Herzog is a director and retired chairman of the board of the Union Commerce Bank. He currently serves as chairman of the board of Revco D. S. Inc.

F. S. Cornell, retired, was formerly president of the Dow-Smith Corporation.

Daniel T. Carroll is vice president and general regional manager of Booz, Allen & Hamilton, Inc., a management-consulting firm.

Russell W. McFall is chief executive officer and chairman of the board of Western Union Telegraph Company.

John E. Koster, retired, was formerly senior vice president of Interstate Engineering Company.

Clifford V. Brokaw, III, is a general partner of Eastman Dillon, Union Securities & Co.

Members of the "Automatic" Sprinkler Corporation of America Board of Directors are: bottom row, left to right, George R. Herzog, Harry E. Figgie, Jr., and James H. Goss; middle row, Russ W. McFall, Hans Ulrich Rinderknecht, Daniel T. Carroll and John E. Koster; top row, Harper Sibley, Jr., Clifford V. Brokaw, III, F. S. Cornell and Dale S. Coenen.

In Memoriam

The officers and directors of "Automatic" Sprinkler Corporation note with deep regret and personal sorrow the passing of John J. Power, Jr., former president and a director of the corporation until shortly before his death on August 22, 1968.

During his distinguished 32-year career with "Automatic" Sprinkler, Mr. Power earned widespread respect and recognition for his outstanding qualities of leadership in directing the affairs of the company and in advancing the cause of fire safety.

His wise counsel and his many contributions to the corporation are greatly missed, and his death is a deep personal loss to his many friends and business associates.

STOCK TRANSFER AGENT: Marine Midland Grace Trust Company of New York, 140 Broadway, New York, New York 10015

REGISTRAR: Morgan Guaranty Trust Company of New York, 23 Wall Street, New York, New York 10015

CO-TRANSFER AGENT: Union Commerce Bank, Euclid Avenue at East Ninth Street, Cleveland, Ohio 44101

CO-REGISTRAR: Capital National Bank, 1101 Euclid Avenue, Cleveland, Ohio 44115

TRUSTEE: Old Colony Trust Co., One Federal Street, Boston, Massachusetts 02102

LISTING OF SECURITIES: Common Stock and 4⅜% Convertible Debentures—New York Stock Exchange, Pacific Coast Stock Exchange, Common Stock—Midwest Stock Exchange

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